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KOREA

STAFF APPRAISAL REPORT

ON THE

CITIZENS NATIONAL BANK (CNB) II

April 19, 1982

East Asia and Pacific Projects Department  
Industrial Development and Finance Division

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### CURRENCY EQUIVALENTS

As of January 31, 1982

|             |   |                   |
|-------------|---|-------------------|
| US\$1.00    | = | Won 710 <u>1/</u> |
| W 1         | = | US\$0.0014        |
| W 1 million | = | US\$1,408         |
| W 1 billion | = | US\$1.41 million  |

### ABBREVIATIONS

|       |   |   |
|-------|---|---|
| ADB   | - | Asian Development Bank                          |
| BOK   | - | Bank of Korea                                   |
| CNB   | - | Citizens National Bank                          |
| EPB   | - | Economic Planning Board                         |
| KCGF  | - | Korea Credit Guarantee Fund                     |
| KDB   | - | Korea Development Bank                          |
| KFSB  | - | Korea Federation of Small Business              |
| KLB   | - | Korea Long Term Credit Bank                     |
| MCI   | - | Ministry of Commerce and Industry               |
| MOF   | - | Ministry of Finance                             |
| NIF   | - | National Investment Fund                        |
| SMI   | - | Small and Medium Industries                     |
| SMIB  | - | Small and Medium Industry Bank                  |
| SMIPC | - | Small and Medium Industry Promotion Corporation |
| SMIPF | - | Small and Medium Industry Promotion Fund        |
| SSE   | - | Small-Scale Enterprises                         |

### FISCAL YEAR

January 1 - December 31

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1/ During 1981, the rate ranged from W 665 in January to W 700 in December.

KOREA

THE CITIZENS NATIONAL BANK

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This report was prepared by Messrs. Joon Bo Shim and Rogelio David following a field appraisal of CNB in October/November 1981.

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ORGANIZATION CHART

Map of Korea

KOREA  
THE CITIZENS NATIONAL BANK

Basic Data

|  |                              |                |                |                  |
|--|------------------------------|----------------|----------------|------------------|
| 1. <u>Year of Establishment:</u>                     | 1962                         |                |                |                  |
| 2. <u>Ownership:</u>                                 | <u>Paid-in share capital</u> |                |                |                  |
|  | <u>Won million</u>           |                | <u>Percent</u> |                  |
| Government of Korea                                  | 19,676.5                     |                | 65.6           |                  |
| Commercial banks                                     | 10,269.7                     |                | 34.1           |                  |
| Others   | 53.8                         |                | 0.3            |                  |
| <u>Total</u>   | <u>30,000.0</u>              |                | <u>100.0</u>   |                  |
| 3. <u>Operations (Won million):</u>                  | <u>1978</u>                  | <u>1979</u>    | <u>1980</u>    | <u>1981 /a</u>   |
| <u>Approvals</u>                                     |                              |                |                |                  |
| Working capital loans                                | 152,463                      | 180,269        | 282,132        | 335,949          |
| Equipment loans                                      |                              |                |                |                  |
| Domestic currency                                    | 17,093                       | 19,903         | 17,384         | 27,917           |
| Foreign currency                                     | -                            | 850            | 4,554          | 11,050           |
| <u>Total Business Loans</u>                          | <u>169,556</u>               | <u>201,022</u> | <u>304,070</u> | <u>374,916</u>   |
| General populace loans /b                            | 170,984                      | 200,325        | 306,144        | 508,942          |
| <u>Total Approvals</u>                               | <u>340,540</u>               | <u>401,347</u> | <u>610,214</u> | <u>882,942</u>   |
| <u>Outstanding</u>                                   |                              |                |                |                  |
| Working capital loans                                | 205,429                      | 283,654        | 415,286        | 511,646          |
| Equipment loans                                      |                              |                |                |                  |
| Domestic currency                                    | 32,285                       | 37,209         | 36,487         | 47,803           |
| Foreign currency                                     | -                            | -              | 1,808          | 11,075           |
| <u>Total Business Loans</u>                          | <u>237,714</u>               | <u>320,863</u> | <u>453,581</u> | <u>570,524</u>   |
| General populace loans /b                            | 196,261                      | 246,375        | 385,363        | 628,093          |
| <u>Total Outstanding</u>                             | <u>433,975</u>               | <u>567,238</u> | <u>838,944</u> | <u>1,198,617</u> |
| 4. <u>Earnings Record (percentages):</u>             |                              |                |                |                  |
| Net income as % of average equity                    | 20.6                         | 8.8            | 34.9           | 14.8             |
| Financial expenses as % of average total assets      | 8.6                          | 9.3            | 11.5           | 12.3             |
| Administrative expenses as % of average total assets | 3.7                          | 4.1            | 3.8            | 4.0              |
| Book value as % of par                               | 222                          | 124            | 155            | 179              |
| Dividend payout ratio                                | 19                           | 45             | 37             | -                |

/a Based on preliminary and provisional figures for the year ended December 31, 1981.

/b Including households and individuals.

| 5. <u>Financial Position</u> (Won million):    | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981 /a</u> |
|--|-------------|-------------|-------------|----------------|
| Total assets                                   | 868,792     | 1,177,303   | 1,501,084   | 2,019,784      |
| Of which total loan portfolio                  | 433,975     | 567,238     | 838,944     | 1,198,617      |
| Long-term debt                                 | 345,817     | 402,932     | 477,093     | 637,333        |
| Equity   | 11,076      | 37,295      | 46,510      | 53,769         |
| Current ratio                                  | 1.20        | 1.13        | 1.11        | 1.11           |
| Total debt/equity ratio                        | 77.4        | 30.6        | 31.2        | 35.9           |
| Long-term debt/equity ratio <u>/b</u>          | 24.2        | 6.2         | 6.3         | 7.7            |
| Reserves and provisions as % of loan portfolio | 1.60        | 1.70        | 2.40        | 2.8            |

6. CNB's Interest Rates and Charges (effective from January 14, 1982):

|   | <u>%</u>    |
|---|-------------|
| <u>Foreign Currency Loans /c</u>                            |             |
| ADB first loan  | 9.4         |
| ADB second loan   | 12.1        |
| IBRD first loan   | 10.25       |
| <u>Domestic Currency Loans</u>                              |             |
| <u>Equipment Loans</u>                                      |             |
| Mutual installment savings                                  | 15.7 - 16.8 |
| Term loans:   |             |
| up to 3 years   | 15.5 - 16.0 |
| up to 8 years   | 16.5 - 17.0 |
| over 8 years  | 17.5 - 18.0 |
| <u>Working Capital Loans</u>                                |             |
| Remuneration basis  | 15.7 - 16.8 |
| Other types of lending (overdraft, discount on bills, etc.) | 15.5 - 16.0 |
| <u>General Populace Loans</u>                               |             |
| Remuneration basis  | 15.7 - 16.8 |
| Other types of lending                                      | 16          |
| Penalty charges on overdue loans                            | 24          |

/a Based on preliminary and provisional figures for the year ended December 31, 1981.

/b After excluding current maturities.

/c In line with the practice of Korean government-owned financial institutions in relending foreign exchange resources borrowed from official sources (IBRD, ADB, et al), CNB charges a uniform spread of two percentage points above its borrowing rate.

## 1. THE INDUSTRIAL SECTOR

### Contribution to the Economy

1.01 During the last two decades, Korea achieved remarkable economic growth. At the beginning of the 1960s, Korea was one of the poorest developing countries with heavy dependence on agriculture. By the late 1970s, it had become a middle-income, semi-industrialized country. During 1960-78, GNP grew by 9% p.a.; employment doubled to 13.5 million persons; and exports grew by 27% p.a. in real terms from \$33 million, or a mere 4% of GNP, in 1960 to over \$13 billion, or 34% of GNP, in 1978. Since the early 1960s, the manufacturing sector has been the engine of economic growth. Over the period 1960-78, the manufacturing sector grew by 18% a year in real terms, increasing its share in GNP from 14% to 27%; and in the process of growth the sector created approximately 2.5 million new jobs, representing about 37% of total additional employment absorbed by the economy. Korea's success in economic development and industrialization is largely based on a strategy of export promotion with emphasis on manufactured exports; the share of manufacturing in total exports rose from 20% in 1961 to over 90% in 1979.

### Structural Change in Manufacturing

1.02 The growth of the manufacturing sector was accompanied by significant adjustments in the importance of the various component subsectors. Heavy industry expanded noticeably, as its share of manufacturing value added increased from 30% in 1963, to 55% in 1979, as shown below:

#### COMPOSITON OF MANUFACTURING VALUE ADDED (%)

|      | Light<br>industry | Heavy<br>industry | Total<br>manufacturing |
|------|-------------------|-------------------|------------------------|
| 1963 | 70.3              | 29.7              | 100.0                  |
| 1973 | 63.6              | 36.4              | 100.0                  |
| 1979 | 45.2              | 54.8              | 100.0                  |

Source: Korea Development Institute, 1980.

These changes in the structure of manufacturing reflect a deliberate policy to deepen and diversify Korea's industrial base away from primary reliance on traditional labor-intensive light industrial products.

### Recent Performance, Sector Issues and Structural Adjustments

1.03 Korea's economy began to show definite signs of overheating in 1978. Manufacturing investment, which had been increasing at a rate of 13.3% in real terms over 1975-77, accelerated sharply by 63.4% in 1978. In retrospect, the growth of manufacturing investment was too rapid and was excessively focused on capital-intensive industries (such as heavy machinery and petrochemicals) resulting in a sharp rise in capital intensity of output, duplication of facilities (especially in heavy machinery) as well as increased inflationary pressures in 1978/79. The manufacturing growth rate of 9.8% in 1979 was about half that in 1978; the real GNP growth was also reduced by half to 6.4% in 1979 mainly as a result of a decline in real exports (by about 4%) caused by Korea's weakened competitive position of exports owing to rising wage rates and (through 1979) exchange rate rigidity, which was corrected only in early 1980. In 1980, a recession in the world economy, oil price hikes, a harvest failure and political uncertainty as well as social unrest following the assassination of President Park contributed to a sharp recession with a decline in real GNP of 6.2%, in industrial output of 1.2% and in fixed capital formation of 14.8%. In 1981, preliminary estimate indicates that the real GNP grew by 6-8%; but taking 1980 and 1981 together, GNP growth was negligible.

1.04 A number of structural factors affecting the industrial sector have contributed to the slowdown. These include: overcapacity in some branches of heavy industry aided by subsidized credit directed by the Government; high debt/equity ratios of large industrial firms which increased the vulnerability of Korean industry to fluctuations of demand, exchange rates and interest rates; the large share of energy-intensive industries in total output; real wage increases which outstripped productivity gains in the second half of the 1970s; and the sharp rise in Korea's price level, compared with major trading partners, and rigidity of the exchange rate prior to 1980 which eroded export competitiveness. The Government has recognized these problems and introduced a number of initial policy adjustments during 1979-81. The Government recently outlined a number of important policy measures and a medium-term structural adjustment program in a Letter of Development Policy for 1982-86. This letter provided the basis for the Bank's first Structural Adjustment Loan of \$250 million which was approved in December 1981.<sup>/1</sup> The structural adjustment program has been incorporated in the Fifth Five-Year Development Plan, covering the years 1982-86. The main features of this program include measures to improve energy-use efficiency; a comprehensive review of industrial incentives and protection policies with the aim of developing policies for promoting more competitive conditions and reducing the role of Government in directing resource allocation; development

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<sup>/1</sup> For details of the structural adjustment program, please refer to the President's Report No. P-3156-KO, dated November 17, 1981.



of programs for restructuring and consolidation of large industries currently suffering from substantial excess capacity; and the strengthening of project appraisal capacity in Government agencies and key financial institutions for the better evaluation of major projects.

1.05 The financial system has played a crucial role in Korea by providing the financial support necessary to implement the Government's economic development strategy. For instance, the operation of the export credit system under government control has been a vital ingredient of the phenomenal export growth which has spurred the expansion of the economy since the mid-1960s. This system served the country well during the early years of rapid growth, but has become increasingly inappropriate as the complexity and sophistication of the economy increase. The substantial degree of government control and the recourse to "subsidized/directed" lending largely through the National Investment Fund contributed to the major problem of overinvestment in certain segments of the heavy industries. Similar government-sponsored funding programs have been established to finance other industrial priority areas such as machinery industries and small and medium industries. The Government has recognized that this system of "subsidized/directed" lending has led to suboptimal allocation of funds and has constrained the overall efficiency of the financial system. Accordingly, a comprehensive reform program of the financial sector, with emphasis on liberalizing the operations of financial intermediaries, was launched in 1980. This program related to, among others, interest rate policy, rationalization of the National Investment Fund, future role of commercial banks, and internationalization of Korea's capital market. In line with the increasing focus of the Bank's lending on sectoral policy this reform program was reviewed in the context of two recent lending operations to the Korea Long-Term Credit Bank (Loan 1932-KO) and the Korea Development Bank (Loan 1933-KO). A package of specific policy measures agreed upon during negotiations of these two projects is being satisfactorily implemented by the Government and is expected to improve the efficiency of the financial system. Further Bank-Government collaboration on these issues is planned.

#### Development Strategy and Medium-Term Prospects

1.06 The key thrust of the Government's development strategy embodied in the Fifth Five-Year Development Plan (1982-86) is to restore the growth momentum of the economy while keeping the balance of payments manageable and reducing the rate of inflation. The Plan forecasts average annual GNP growth of 7.6% over 1982-86 with the manufacturing sector continuing to be a major engine of growth. The manufacturing sector is projected to grow at an average annual rate of 11% with manufactured exports providing the impetus and its share of GNP is projected to increase from 30.7% in 1980 to 35.0% in 1986. Within the manufacturing sector, the machinery and light industries, in which the presence of small- and medium-scale producers is most prominent, are expected to be the two fastest growing subsectors (with an annual growth rate of 17.6% for machinery industry and 9.5% for light industry). To achieve the targeted growth in machinery and light industry output, investment is

projected to amount to W 6 trillion (\$8.5 billion) in machinery industry and W 5.3 trillion (\$7.5 billion) in light industry, jointly accounting for 70% of projected total investment in the manufacturing sector during 1982-86. Exports of machinery and light industrial goods are projected to reach \$17.3 billion (32.6% of total exports) and \$20.9 billion (39.5% of total exports), respectively, in 1986. To achieve the projected shares in the total exports of manufactured goods, exports of machinery will need to grow at an annual rate of 31.5% and export of the light industrial goods at an annual rate of 16.1% during 1982-86. These projections, although ambitious, reflect the importance attached by the Government to the development of the machinery industry and modernization of the light industry.

1.07 Export-led manufacturing growth, which is a key element in Korea's development strategy, requires the industry to be highly productive and efficient in the face of increasingly stiff competition in world markets. To maintain external competitiveness, a system of floating exchange rates and a policy of wage restraint will continue to be pursued. Also, the incentive system is planned to be redesigned in a more neutral way, i.e., incentives will be given to economically viable investment activities in general (rather than limited to specified industries) with priority being given to investments contributing to technology and manpower development, efficiency in energy use, and development of small and medium enterprises. The Government is now moving to give greater autonomy to financial institutions in their management and credit allocation.

## 2. THE SMALL-SCALE ENTERPRISE (SSE) SECTOR

2.01 Definition. The Small and Medium Industry (SMI) sector is defined in a number of laws and government decrees in terms of either total assets or employment size as follows:

|  | Total assets<br>(W million) | Number of<br>employees |
|--|-----------------------------|------------------------|
| Mining, Manufacturing,<br>transportation | Up to 500                   | Up to 300/a            |
| Construction                             | Up to 500                   | Up to 50               |
| Commerce and services                    | Up to 50                    | Up to 20               |

/a For some specific industrial activities, the Government in 1979 has enlarged the definition to include manufacturing enterprises with up to 500 employees.

The purpose of the definition is mainly to differentiate between the clientele of the various government-owned financial institutions. The following analysis defines enterprises with less than 100 workers as small, enterprises with 100 to 299 workers as medium, and enterprises with over 300 workers as large. CNB caters to small-scale enterprises (SSE) employing less than 100 workers in accordance with the Enforcement Decree of CNB Act.

#### Structure and Role of Small-Scale Manufacturing

2.02      Industrial Structure. The SSE sector has played a prominent role in the process of industrialization in Korea. In the 1960s, SSEs dominated the light manufacturing sector, particularly activities involving simple assembly, mixing or finishing. Improved infrastructure and transport facilities and greater concentration of population in major cities later permitted large enterprises to emerge and small manufacturers to expand operations by taking advantage of scale economies; also, the widening of markets through international trade accelerated this trend. The emergence of new and large scale producers of light manufactures and the growth of SSEs into medium or large units have combined to reduce the relative importance of SSEs in light industries. At the same time, a large number of SSEs entered into the manufacturing of plastic products and the machinery and metal working subsectors. The table below summarizes the structure of the SSE sector in 1979.

Table 2.1: STRUCTURE OF THE SSE SECTOR, 1979

|                             | Enterprises<br>(Number) | Employees<br>(‘000) | Gross<br>output<br>(W billion) | Value<br>added<br>(W billion) |      |      |      |      |
|-----------------------------|-------------------------|---------------------|--------------------------------|-------------------------------|------|------|------|------|
| All Manufacturing           | 31,804                  | 2,117               | 26,690                         | 9,208                         |      |      |      |      |
| Small scale (SSE)           | 28,143                  | 580                 | 4,219                          | 1,668                         |      |      |      |      |
| Medium scale (MSE)          | 2,552                   | 433                 | 4,342                          | 1,576                         |      |      |      |      |
| Large scale (LSE)           | 1,109                   | 1,104               | 18,129                         | 5,964                         |      |      |      |      |
| Share of SSEs and SMIs/a    | ------(%)-----          |                     |                                |                               |      |      |      |      |
|                             | SSEs                    | SMIs                | SSEs                           | SMIs                          | SSEs | SMIs | SSEs | SMIs |
| A. <u>Light Industry</u>    | 89.5                    | 97.1                | 30.0                           | 53.1                          | 18.7 | 38.5 | 19.3 | 37.7 |
| Food and tobacco            | 93.7                    | 97.9                | 36.6                           | 53.8                          | 15.7 | 33.9 | 12.9 | 25.4 |
| Textile and leather         | 83.9                    | 95.7                | 23.8                           | 48.6                          | 15.6 | 35.5 | 18.2 | 38.8 |
| Wood Products               | 96.6                    | 98.7                | 38.2                           | 48.7                          | 26.1 | 35.6 | 38.1 | 52.3 |
| Paper Products              | 93.2                    | 98.0                | 46.7                           | 68.5                          | 32.8 | 56.4 | 32.1 | 54.1 |
| Nonmetallic minerals        | 91.7                    | 97.7                | 35.6                           | 62.4                          | 21.1 | 45.0 | 20.8 | 43.4 |
| Others                      | 83.7                    | 96.6                | 31.1                           | 63.5                          | 28.8 | 63.0 | 30.4 | 62.5 |
| B. <u>Heavy Industry</u>    | 86.4                    | 95.4                | 24.1                           | 41.3                          | 13.4 | 26.9 | 16.9 | 32.7 |
| Chemical                    | 87.4                    | 95.7                | 24.5                           | 41.2                          | 12.7 | 27.9 | 17.1 | 35.8 |
| Basic metals                | 83.8                    | 94.6                | 22.2                           | 38.9                          | 10.5 | 20.4 | 10.1 | 20.1 |
| Machinery                   | 86.3                    | 95.3                | 24.2                           | 41.6                          | 15.2 | 28.3 | 19.0 | 34.6 |
| C. <u>All Manufacturing</u> | 88.5                    | 96.5                | 27.4                           | 47.9                          | 15.8 | 32.1 | 18.1 | 35.2 |

/a Including SSEs.

Source: EPB Reports on Mining and Manufacturing Survey, 1979.

SSEs are still prominent in wood products (particularly sawmills), paper products (especially paper board boxes and containers, printing and publishing) and textiles (certain segments of textile products); and the importance of SSEs in the machinery and metal working subsectors has grown steadily, responding in part to the backward linkages to the development of heavy machinery industry.

2.03 The Role of SSEs. SSEs in the Korean manufacturing sector consist of over 28,000 firms which account for nearly 89% of all manufacturing establishments, about 27% of manufacturing employment and over 15% of value

added and output. Exports (direct and indirect) by the SMI sector represented over 35% of total manufactured exports in 1979-80.

2.04 As noted earlier, the Korean Industry is in a state of transition from labor-intensive manufacturing towards products requiring higher levels of technology and labor skills. The shift in industrial development strategy, in retrospect, has been pursued too abruptly and has led to a lopsided distribution of limited resources in favor of large enterprises in the heavy and chemical industries, at the expense of a broad spectrum of small- and medium-scale industries which lacked the funds necessary to improve their cost competitiveness and upgrade quality, skill and technology levels. With underinvestment, the level of productivity and technology in the SMI sector has remained stagnant in the face of a shortage of skilled labor, high rates of labor turnover, and rising labor cost. All these factors have resulted in the erosion of SMI firms' domestic as well as international competitiveness.

2.05 According to a preliminary "Long-Term Development Plan and Promotion Policy for Small and Medium Industry in Korea (1982-1991)",<sup>/1</sup> the share of SMIs in the total manufacturing exports will gradually rise from about 35% in 1980 to about 38% in 1986, largely reflecting a projected substantial increase in exports of machinery and light industrial products. To achieve the projected share in the total exports of manufactured goods, exports by SMIs will need to grow more than three-fold during 1982-1986. These are rather ambitious targets. Nevertheless, it is clear that the SMI sector as a whole will continue (and need) to play an important role in the Korean economy which is largely dependent on the steady growth of exports to achieve sustained economic growth. Therefore, it is imperative for the SMI sector to raise its productivity and improve the quality and competitiveness of its products. This will require not only additional capital investment but also, equally as important, technical assistance to SMIs for improvement of their efficiency.

2.06 Regional Distribution. The geographical distribution of SSEs is not substantially different from that of the overall manufacturing sector. The following table shows that the regional distribution of employment by the manufacturing sector as a whole and SSEs is skewed in favor of Seoul and Busan.

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<sup>/1</sup> This plan was prepared jointly by the Small and Medium Industry Promotion Corporation (SMIPC) and the Korea Industrial Development Institute (KID) based on a study carried out by KID during January-August 1981. The suggested plan is being reviewed by the Government.

Table 2.2: GEOGRAPHIC DISTRIBUTION OF INDUSTRY AND SSEs  
(%)

|               | 1977         |              |              |              | 1979         |              |              |              |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|               | Employment   |              | Value added  |              | Employment   |              | Value added  |              |
|               | All industry | SSEs         | All industry | SSEs         | All industry | SSEs         | All industry | SSEs         |
| Seoul         | 28.0         | 30.3         | 25.0         | 30.8         | 23.6         | 27.3         | 21.1         | 27.5         |
| Busan         | 18.2         | 12.4         | 12.5         | 13.3         | 16.6         | 12.4         | 12.9         | 14.2         |
| Other regions | 53.8         | 57.3         | 62.5         | 55.9         | 59.8         | 60.3         | 66.0         | 58.3         |
|               | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

Source: EPB Reports on Mining and Manufacturing Survey, 1977 and 1979.

While Seoul and Busan remain the largest industrial centers, considerable improvements have taken place between 1977 and 1979 in the redistribution of industrial employment outside these areas. This may be the first sign that government policies aimed at a better distribution of employment are having an impact. The efforts being made to reduce congestion in Seoul and Busan include severe restrictions on industrial expansion in these two cities, a program of financial assistance for the relocation of industries, the promotion of new industrial estates such as the Pohang, Ulsan and Yeosu complexes and the Saemaeul Movement, initiated in 1971, for creating off-farm employment in rural areas.

2.07 Financial Structure. A recent survey of the SMI sector done by SMIB indicates that the total debt/equity ratio of SSEs was still low reaching only 0.4:1 for enterprises with less than 9 workers and rising gradually to 2.3:1 for enterprises with 50-99 workers in 1979. Their debt structure, however, was heavily skewed towards short-term indebtedness mainly from unorganized sources, accounting for about 55% of total assets as against the 15% share of long-term debt in total resources. While the overall financial structure of SSEs is favorably compared with that of the larger end of SMI, a more balanced financial structure of SSEs would require a considerable increase in the share of long-term loans from the present 15% of total resources to, say, about 30%.

#### Government Policies in Support of SSEs

2.08 Legal and Institutional Framework. Over the years, the Government has established the legal and institutional tools required to enforce its policy objectives in the SMI sector. The legal instruments include the SMI Cooperative Act and the SMI Business Coordination Act of 1961, the SMI Basic

Act of 1966, the SMI Affiliation Law <sup>/1</sup> of 1975 and the SMI Promotion Law of 1978 whose main objective was the establishment of the SMI Promotion Corporation (SMIPC). The institutional framework has also expanded rapidly with the establishment in the early sixties of the Small and Medium Industry Bank (SMIB) and the Citizens National Bank (CNB). In 1962, the Korea Federation of Small Business (KFSB) was established to operate as the apex of a network of provincial and national cooperatives. KFSB has since remained very active as a representative of SMI interests in government circles. It also provides a wide range of technical assistance, marketing and procurement services to its members. The Korea Credit Guarantee Fund (KCGF) which also provides technical assistance to SMIs in addition to its normal financial services was established as an independent institution in 1976. As the institutional infrastructure supporting SMIs grew in size and complexity, the Government realized that the SMI Bureau of the Ministry of Commerce and Industry (MCI) could not singlehandedly coordinate the activities of the various bodies involved. To this end, the SMI Promotion Law of 1978 provided for the creation of SMIPC which the Government expected ultimately to develop into a powerful national agency in charge of implementing policies for the development of the SMI sector.

2.09 Current Policy Objectives. SMI sector policies embodied in the Fifth Five-Year Economic and Social Development Plan (1982-86) were formulated in the context of the broader objective of improving industrial efficiency. Enhancement of efficiency of SMIs is one of the key thrusts of the industrial policy for the Plan period. In order to help SMIs improve their efficiency, emphasis is placed on: (a) expansion and strengthening of technical and managerial extension services to SMIs and an increase of the overseas training opportunities for managers of SMIs; (b) promotion of specialization and vertical integration of small-scale component producers with large industries; (c) encouragement for selected financial institutions to provide venture capital in support of technology intensive small firms; and (d) expansion of financial assistance to SMIs for modernization of their facilities.

#### Technical Assistance to SMIs

2.10 The institutional framework for technical assistance to SMIs comprises the following:

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<sup>/1</sup> Governing relationships and subcontracting arrangements between large industry and SMIs.

| Institution  | Area of service |           |
|--|-----------------|-----------|
|  | Managerial      | Technical |
| <u>1. Government or Government-Controlled Technical Institutions</u> |                 |           |
| Small and Medium Industry Promotion Corp. (SMIPC)                    | X               | X         |
| Industrial Advancement Administration (IAA)                          |                 | X         |
| National Industrial Research Institute (NIRI)                        |                 | X         |
| Korea Production Technology Corporation (KOPTEC)                     |                 | X         |
| <u>2. Cooperative-Type Institutions</u>                              |                 |           |
| Korea Federation of Small Business (KFSB)                            | X               | X         |
| Korea Chamber of Commerce and Industry (KCCI)                        | X               |           |
| <u>3. Government Controlled Financial Institutions</u>               |                 |           |
| Korea Credit Guarantee Fund (KCGF)                                   | X               | X         |
| Small and Medium Industry Bank (SMIB)                                | X               | X         |
| Citizens National Bank (CNB)   | X               | X         |

The total number of registered extension agents in the nine institutions listed above was 515 in August 1981 and this appears to be small relative to the needs of the SMI sector. These extension agents, however, are supplemented by about 630 registered technical "specialists," most of them college professors and public accountants hired by the SMIPC on a short-term basis as consultants.

2.11 Most critical bottlenecks for efficient delivery of extension services, addressed in the Government's "Plan for Improving Extension Services to SMIs" which was formulated in December 1980, were: (a) inadequate number of qualified extension service officers (as against a potential clientele of about 30,000 enterprises, Korea had only 877 "registered" extension officers in 1980 and most of them were college professors who lack actual business experience); (b) lack of SMIPC's capability in terms of qualified personnel (SMIPC had only 32 professional extension officers in 1980); (c) inadequate training facilities for extension service officers and managers of SMIs; and (d) absence of coordination among 61 institutions, agencies, federations, and cooperatives engaging in extension services (as a result, fragmentation and duplication of efforts were inevitable). The Government initiated various measures to tackle the above bottlenecks. The most important was the creation of a "Coordinating Committee for Extension Services to SMIs" in January 1981. The Committee is chaired by the Assistant Minister of the Ministry of Commerce and Industry (MCI) and consists of 20 representatives from various government



2.12 In February 1981, the Committee adopted and promulgated new guidelines laying down the procedures of applications for extension services. However, the problems stated in para. 2.11 particularly the problem of inadequate coordination among agencies, were not satisfactorily resolved because the new procedural guidelines were found ineffective. In view of these problems and, at the same time, in fulfillment of its undertaking under the fourth Bank loan to SMIB, the Government carried out a review of extension services system during November/December 1981 and, in January 1982, initiated action to rationalize the delivery of extension services. The action taken by the Government involves the reduction in number of extension services agencies to five (including CNB) and the creation of a working group composed of responsible managers of these agencies for better coordination. The Bank will work closely with the Government in continuing improvement of extension services to SMIs in the context of this and future Bank projects. During negotiations, Korean representatives clarified that CNB under the new arrangement was expected to provide extension assistance to its SSI clients who have no access to the services of other agencies (including SMIPC and KOPTEC).

#### Financing the SSE Sector

2.13 The effectiveness of the Government's strategy for allocating funds to SSEs was made possible by (a) the establishment in the early sixties of specialized government-owned financial institutions in support of the SMI sector; (b) the creation of a guarantee scheme which mitigated the financial risk involved in SSE lending, and (c) the requirement that non-specialized financial institutions earmark a specific share of their total lending for SMIs.

2.14 Institutional Framework. The existence of financial institutions serving specific sectors of the economy (agriculture, housing, exports, large industries and small industries) is characteristic of the highly fragmented structure of the Korean financial system. The Small and Medium Industry Bank (SMIB) was established by the Government in 1961. In 1963, the Citizens National Bank (CNB) was created to mobilize household savings and provide financing to its depositors. CNB's functions have gradually evolved towards financing household and small enterprises and it is currently allowed to finance small industries employing up to 100 persons. At the time of its establishment, SMIB was authorized to finance enterprises with less than 100 employees. The limit was subsequently raised to 200 employees and, in 1977, to 300 employees.<sup>/1</sup> Both SMIB and CNB provide working capital and

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<sup>/1</sup> SMIB is currently authorized to finance entrepreneurs with up to 500 employees in specific activities defined in Small and Medium Industry Promotion Act of 1979.

equipment loans. Because the scope of their operations is limited to the SMI sector, they accounted jointly for a substantial share (38%) of all lending to the SMI sector and as much as 75% of all SMI equipment loans outstanding as of May 31, 1981.

2.15 The specialized institutional framework for financing SMIs was complemented in 1967 by a credit guarantee scheme administered by SMIB. In 1976, the Korea Credit Guarantee Fund (KCGF) was spun off as an autonomous institution serving the needs of both large and small enterprises. KCGF, however, has been required to extend at least 40% (by amount) of its guarantees to the SMI sector.

2.16 The Korean financial system also comprises a number of nonspecialized institutions which serve the needs of industry irrespective of size. These institutions operate alongside the two government-owned specialized banks (CNB and SMIB) in servicing the SMI sector. Commercial banks, short-term finance companies, foreign commercial bank branches, leasing companies and the Korea Long-Term Credit Bank (KLB) all provide varying degrees of financial support to the SMI sector. In practice, only the commercial banks (nationwide and regional) have substantial lending operations to the SMI sector because of their large resource base. With 62% of all SMI loans outstanding as of May 31, 1981, the aggregate SMI loan portfolio of commercial banks was nearly twice as large as that of SMIB and CNB together.

2.17 There is substantial complementarity in the types of financial assistance provided to the SMI sector by the commercial banks and the two specialized banks (CNB and SMIB). The commercial banks provide mainly short-term working capital loans: at end-May 1981, equipment loans accounted for only about 6% of their SMI loan portfolio. SMIB and, to a lesser extent, CNB are more heavily geared towards equipment financing with such loans accounting respectively for 31% and 8% of their portfolio. However, as indicated in para. 2.07, term lending for acquisition of equipment by SMIs appears inadequate relative to the needs of the sector.

2.18 Government Guidelines for SMI Financing. In Korea, the Government strictly regulates the allocation of funds by the financial sector. Government-owned specialized banks serving SMIs have been used as a channel for administering, in addition to their normal operations, a number of special lending programs funded by the Government to support priority activities designated by the Ministry of Commerce and Industry (MCI) /1. The target group of potential borrowers as well as the maximum amounts, duration and terms of the loans are determined by the Ministries of Finance and Industry. As for the allocation of funds by commercial banks, controls are exercised

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/1 For example, specialized machinery industries, Saemaul projects and subcontractors.

in the form of (i) general guidelines identifying preferred, unpreferred and prohibited industrial activities; (ii) a mandatory requirement instated in 1976 that SMI lending account for a specific share of the banks' portfolio; /1 and (iii) the requirement that SMI borrowers in priority activities be considered as prime borrowers and therefore eligible for a 0.5% p.a. rebate on the standard interest rate of commercial loans.

2.19 Most of the new guidelines have had significant impact on the flow of institutional finance to the SMI sector. While aggregate fund flows to SMI are adequate, the share of long-term equipment lending remains insufficient relative to working capital finance and the recent government measures do not seem to address this issue adequately. Equipment lending is particularly important in the light of the objective of promoting more technology and skill intensive investments.

#### Funding of SMI Lending Programs

2.20 Two special lending programs are currently in operation to provide financial assistance to the SMI sector. In 1981, these programs were expected to provide an aggregate amount of W 688 billion (\$997 million) /2 to the sector. The "General Loan Program for SMI" is, by far, the largest, accounting for 75% (W 500 billion or \$720 million) of total SMI lending in 1981. Funding is from SMIB's and CNB's own resources and from the resources supplied to SMIs by commercial banks in accordance with government guidelines for portfolio composition. The amount earmarked for equipment loans was only W 110 billion with maturity of up to 5 years. The interest subsidy is negligible under this program. The other program was part of the government-sponsored system of "subsidized lending" and provided a substantial interest subsidy to eligible subborrowers. This program, (W 168 billion) which was in part directly funded by the Government (the SMI Promotion Fund and the National Investment Fund) and in part by BOK's rediscounting facilities, accounted for 25% of total SMI lending in 1981. The whole amount was earmarked for equipment loans; and the maximum maturity of loans under this program is 8 years. Eligible activities include machinery industries, export industries, SMI enterprises located in industrial estates, Saemaul factories and cooperative projects, handicrafts and those SMIs which need financial assistance in order to implement the recommendations made by extension services agencies.

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/1 The requirement that the SMI sector account for 30% of the annual increase in lending by nationwide commercial banks was raised to 35% in October 1980 and from 40% to 55% for regional commercial banks.

/2 On a disbursement basis.

2.21 In contrast to the financing of large industry for which subsidized lending /1 was estimated at about 57% of total outstanding loans to large industry at end-1980, subsidized loans accounted for only a third of total SMI loans./2 Government objectives aimed at reducing the magnitude and scope of NIF and other subsidized lending programs to large industry should, over time, restore greater parity in the treatment of SMI and large industry.

#### Financial Expenses in the SMI Sector

2.22 During 1980, interest expenses represented 6.02% (up from 4.8% in 1979) of total SMI sales and were largely responsible for a sharp decline in return (before income tax) on sales from 2.6% in 1979 to 1.3% in 1980./3 The average cost of borrowing by SMIs rose from 14.2% in 1979 to 20.7% in 1980 as a result of the Government's abrupt increase in lending rates in January 1980./4 In the absence of an increase in operating leverage, return on SMIs' total assets declined from 1.6% in 1979 to 0.3% in 1980 largely because of sharply increased financial expenses. The vulnerability of Korean industry to interest rate fluctuations results largely from its high indebtedness, and also from the Korean practice of applying new interest rates to all loans, including long-term borrowing contracted prior to a change in the interest rate structure. This practice which is equivalent to a variable interest rate on long-term loans, however, would allow financial institutions to achieve some degree of term transformation. It does not appear, however, that Korean financial institutions use short-term resources for funding their term lending.

#### Interest Rate Structure

2.23 The erosion of profitability induced by the Government's abrupt increase in lending rates in January 1980 became rapidly unbearable for Korean industry. The Government acknowledged the difficulties faced by industrialists and scaled down lending rate levels in seven steps, in June, September and November 1980, twice in November and once in December 1981, and January 1982 by about 8 percentage points in aggregate. Annex 1 shows Korea's interest rate structure following these adjustments. In January 1982, standard lending rates for equipment loans ranged from 15.5% to 18% depending on loan maturity and on the borrower's creditworthiness. Applicable rates for short-term working capital loans ranged from 15.5% to 16% depending on the borrower's creditworthiness.

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/1 NIF and export credit financing.

/2 Including export credit financing in addition to the program described above.

/3 Based on BOK's financial statements analysis.

/4 From a standard rate of 18% to 26% p.a.

2.24 The aggregate decline in deposit rates since June 1980 has slightly outpaced the decline in lending rates, thus increasing the nominal spread between deposit and lending rates. The Government policy of ensuring the interest spread accruing to financial intermediaries has been complemented by a lowering of reserves requirements./1

2.25 In addition to the above changes in Korea's interest rate structure, the Government has started a process of reduction of the subsidy elements in the lending programs for large industries (NIF and export credits)./2 Subsidies available under lending programs aimed at SMIs have also been reduced from about 5% in November 1980 to 1.5-2% in January 1982. Applicable rate for working capital loan is 1.5% below the standard rate and rate for equipment loan is 15% p.a. under the Special Loan Program. The need for maintaining interest subsidies in the SMI sector would need to be reassessed by the Government in the context of the financial sector reform.

2.26 Inflation. During 1980, the depreciation of the Won against the US dollar reached 26.7%. This rapid decline in the value of the Won together with oil price hike increased inflationary pressures. The annual rate of increase of wholesale and consumer prices accelerated from 12% and 14% respectively in 1978 to 39% and 29% in 1980. Encouraged by the result of its economic stabilization measures, the Government is projecting wholesale price increases of 14-17% in 1981 and 10-14% in 1982. In relation to expected inflation in 1982, the present interest rate structure is positive in real terms, both in the case of deposit and lending rates./3 Priority should now be attached to improving the financial structure of Korean industry over time, so as to lower the overall level of indebtedness and thus restore some flexibility in the efficiency of such monetary and financial policy instruments as interest rates. The role of financial sector policies and of financial intermediaries is critical in ensuring that, over time, equity financing account for a larger share of industrial investment.

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/1 Down from 20% for demand deposits and 11% for time and savings deposits in January 1980 to 3.5% both for demand and time savings deposits in November 1981.

/2 The interest subsidy under NIF has been reduced from 4% in January 1980 to a negligible level in January 1982 (see Annex 1). The subsidized lending rates applicable to export credits have been increased from 9% to 12% in January 1980.

/3 In relation to the projected GNP deflator (14% for 1982 and 11% for 1983), current lending rates are substantially positive.

### 3. BANK'S ROLE IN INDUSTRIAL FINANCING IN KOREA AND PROJECT OBJECTIVES

#### The Bank's Role in Industrial Financing in Korea

3.01 In the past, the thrust of the Bank's industrial lending strategy for Korea has been to promote strong development finance companies (DFCs) capable of acting as efficient financial intermediaries. To date the Bank has provided about \$997 million to the Korean industrial sector through the Korea Long-Term Credit Bank (KLB), the Korea Development Bank (KDB), the Small and Medium Industry Bank (SMIB), and the Citizens National Bank (CNB). Eight Bank loans (totaling \$410 million) to KLB and four loans (totaling \$352.5 million) to KDB have been for onlending to large-scale industry. Four Bank loans (totaling \$205 million) to SMIB have been for financial assistance to small and medium enterprises. A Bank loan of \$30 million to CNB in 1980 was to cover the very small end of the SMI sector.

3.02 The major objectives of Bank lending through DFCs in Korea in the past have been: (a) resource transfer to provide the foreign exchange resources needed for industrial development; (b) support of the Government's industrial strategy, including promotion of balanced growth through regional development, employment generation, export orientation, technological upgrading, and skill development; and (c) strengthening the institutional base for efficient financial intermediation. The first two of these objectives remain important, but the Bank's institution building role has been largely completed in the case of KDB, KLB and SMIB which are mature institutions though more needs to be done to strengthen the institutional capacity of CNB. The significant maturity attained in the Korean financial sector, partly as a result of the Bank's assistance in strengthening institutional capabilities, coupled with the Government's willingness to address directly industrial and financial sector issues has made it possible for the Bank to shift its lending objectives from institution-specific issues to broader sectoral issues.

3.03 The recent Bank loans to KDB and KLB were predicated on such a broad-based macroeconomic approach. The two loans provided a vehicle for discussing with the Korean Government the blueprint for a major reform of the financial sector aimed at liberalizing the operations of financial institutions. It is expected that the agreements will ultimately improve the responsiveness of the financial system to the requirements of Korean industry and will help improve investment efficiency. The Bank's dialogue with the Government on financial sector issues, which will continue in the context of the next Korean Financial Sector loan planned for FY84, has been proceeding in parallel with a greater involvement in the formulation of a development strategy for the industrial sector. Such a development strategy aims to bring about the structural adjustments necessitated by the

changing environment in which Korean industry operates. The Bank has discussed with the Government the broad question of industrial investment strategy and incentives in industry in the context of the Bank's structural adjustment loan.

3.04 Structural adjustment lending and financial sector loans provided the vehicles for a closer involvement by the Bank in shaping Korea's financial and industrial sector development. The strategies and policy measures adopted by the Government in both sectors at a macroeconomic level are expected, over time, to gradually reduce distortions in factor prices and policies at the subsector level. At the same time, concerted action may be required in specific subsectors facing difficulties or in areas where new products and technologies are being developed. The Bank's macro-based lending strategy is therefore complemented by a direct involvement in the restructuring and/or rehabilitation of specific subsectors. The Bank is currently considering projects for technology development and for the support of small and medium machinery industries which would emphasize skill development in Korean industry. Also, IFC has recently decided to invest in the Korea Technology Assistance Corporation, a subsidiary of the Korea Advanced Institute of Science and Technology (KAIST), whose primary objective is to commercialize production technology developed by KAIST. The proposed loan to CNB is designed as a subsector operation which supplements other efforts in the industrial sector by improving the efficiency of enterprises at the very low end of the industrial spectrum.

#### Project Objectives

3.05 Project Background. The Bank's original intention was to make the next loan to CNB under the proposed financial sector loan presently planned for FY84. However, on a number of occasions, CNB reiterated its request for another line of credit from the Bank to be made available prior to the end of 1982. A careful review of CNB's request, its resource position and requirements indicated that CNB would be lacking in foreign exchange resources from December 1982. Any substantial hiatus in its foreign exchange lending would not only result in a disruption of its foreign exchange resource availability but would also substantially delay CNB's institutional development as the momentum generated by the Bank's and ADB's support in transforming the CNB into an institution engaging in term lending to industry would be lost.

3.06 The first Bank loan to CNB (\$30 million) became effective on August 5, 1980. CNB has performed well under the first loan in utilizing Bank resources to finance very small economically viable projects (para. 4.37) and in implementing the provisions of a Development Strategy for 1980/81 agreed upon in the context of the first Bank loan with the exception of raising long-term local currency resources. Raising long-term local currency resources in the capital market, although possible, is found impractical for CNB given the relatively high effective cost of such resources. However, transformation of some of CNB's substantial

deposit resources into long-term loans is found quite feasible given the stable nature of its deposits and other factors discussed in para. 4.51, provided that adequate safeguard is provided through strengthening term lending capability at the branch level. The Bank's institution-building efforts under the first Bank loan have primarily been focused on strengthening one of CNB's departments, which handles foreign currency term loans. Progress made by this department has been satisfactory and has lived up to expectation. In a situation of term transformation, however, the coverage of institution-building efforts needs to be broadened.

3.07 Project Objectives. The project serves a number of specific objectives. The project is expected: (a) to augment CNB's ability to provide long-term foreign currency resources in support of the modernization and greater efficiency of production in the SSE sector; (b) to assist CNB to move prudently towards term transformation of a portion of its substantial deposits; (c) to upgrade CNB's term lending capability especially at the branch level; and (d) to encourage CNB to diversify sources of foreign currency resources.

#### 4. THE CITIZENS NATIONAL BANK

##### The Role of CNB in the Financial System

4.01 Overview of the Financial System. Korea has a highly specialized financial system composed of: (a) banking institutions which along with the (central) Bank of Korea (BOK) form the monetary system; and (b) nonbank institutions which, unlike banking institutions, do not mobilize deposits from the general public. Banking institutions comprise commercial banks (5 nationwide and 10 regional commercial banks, 33 branches of foreign banks) and six specialized banks, which mobilize and allocate resources to specific segments of the economy (e.g., SMIs, housing, and agriculture). Commercial banks dominate the financial system accounting for 40% of total assets of the financial sector at the end of 1980. Specialized banks, including CNB and SMIB, accounted for 24% of total assets of the financial sector in 1980; their operations can best be characterized as a mix of commercial banking operations and development long-term finance. CNB is operating for and in the household as well as SSE sector; SMIB basically for and in the SMI sector (including SSEs). The asset size of CNB and SMIB is comparable, each accounting for about 3% of the financial sector's total assets. In allocating its resources to SMI sector, CNB and SMIB are allowed, by their respective acts, to finance projects employing up to 100 persons, but SMIB alone may also finance projects employing up to 300 employees. This overlap in the clientele between CNB and SMIB and the mandatory requirement for the SMI portfolio composition of all non-specialized banking institutions explained in para. 2.18 are to improve the access of SMIs to institutional financing.



4.02 Nonbank financial institutions comprise institutions which specialize in the mobilization of specific types of savings (e.g., insurance, trust, and short-term finance companies) and development banks specialized in allocating long-term resources to particular branches of the economy. In aggregate, nonbank institutions accounted for 25% of the assets of the financial sector in 1980; development banks alone represented 14% of financial sector assets. The Korea Development Bank (KDB) and the Korea Long-Term Credit Bank (KLB) are, among nonbank institutions, the two major sources of long-term finance for large industry.

4.03 Role of CNB. CNB stands out in the Korean financial system as the largest mobilizer of deposits. At the end of 1980, its total deposits accounted for nearly 11% of aggregate deposits of the banking system. Unlike commercial banks and other specialized banks,<sup>/1</sup> CNB's dependence on borrowed funds (from BOK, Government and foreign sources) has been negligible (0.1% of its total assets at the end of 1980) and CNB has been basically dependent on its deposit resources which accounted for 88.5% of its total assets at the end of 1980. Because of this factor and its very low maximum local currency loan limits in any single enterprise (para. 4.06), CNB's lending operations and its loan portfolio have been least affected by the Government's directed/subsidized lending discussed earlier. However, its loan portfolio is still small relative to total outstanding credit to SMIs of the financial sector (only 12%) and to its own total assets (56%) since CNB carries an unusually large surplus liquid fund in the form of deposits with other banks and short-term securities (para. 4.39). Moreover, its loans were extended basically on short-term (para. 4.22). While the large balance of surplus liquid assets reflects CNB's remarkable achievements made so far as a mobilizer of deposits (CNB's deposits grew fifteen times during 1971-80), it also reflects the lack of complete freedom in utilizing its resources (i.e., overall credit ceilings imposed on CNB by the monetary authority) and of institutional capability to engage in long-term lending. However, the monetary authority abolished the overall credit ceiling system in January 1982 and decided to rely on such indirect monetary policy tools as discount rates and reserve requirements as well as open market operations. This will permit CNB to use its large domestic currency resources more effectively and to play a more meaningful role as an allocator of resources. With its already large resource base, its extensive branch net-

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<sup>/1</sup> At the end of 1980, borrowed funds (mainly from BOK and foreign sources) of commercial banks accounted for about 47% of their aggregate assets excluding guarantees and acceptances which represented 39% of reported aggregate total assets; and those (mainly from foreign sources, BOK and the Government) of other specialized banks not including CNB, for 49% of their aggregate assets excluding guarantees which represented 38.5% of reported aggregate assets.

work which gives it the capacity to reach and serve SSEs, the renewed emphasis of the Government on the strengthening of SSE sector, and the new attitude of the Government towards monetary policy tools, CNB appears particularly well placed to make a significant contribution toward the development of SSE sector and is committed to do so (para. 4.08).

#### Legal Framework

4.04 CNB was incorporated in December 1962 under the Citizens National Bank Act and began operations in February 1963 as a consolidated body of a number of small mutual savings companies which dealt with petty finance. The consolidation of mutual savings companies was to set up a broad-based financial institution which caters to the financial needs of general populace and small businesses and attracts small household savings as part of a national effort to mobilize domestic resources for economic development. The CNB Act empowers CNB to conduct all activities normally carried out by commercial banks in addition to its unique authority to operate a mutual installment savings and remuneration scheme (MISRS).<sup>/1</sup> The Act, supplemented by an Enforcement Decree and Articles of Incorporation, governs CNB's policies, operations, organization, administration and capitalization. The Act was amended in December 1977 when CNB's authorized share capital was increased from W 5 billion to W 30 billion, and CNB was authorized to borrow and lend in foreign currencies. The Act was last revised in December 1981 to raise CNB's authorized capital further to W 100 billion. Like other Government-owned specialized banks, CNB's operations, financial performance, organization and management are subject to the close supervision of the Ministry of Finance. As a banking institution, CNB is also further subject to supervision by the (central) Bank of Korea. Within this broad supervisory framework, CNB's management is independent and exercises considerable autonomy in CNB's operations.

4.05 The Government is the major shareholder of CNB (Annex 2). As of September 30, 1981 the Government held 65.6% of CNB's paid-in capital of W 30 billion (15.6% over the minimum of 50% it is required to hold under the

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<sup>/1</sup> Under this scheme CNB and an individual depositor enter into a mutual contract. The depositor undertakes to deposit a fixed sum each month for a specified period (15 to 60 months). In return CNB agrees to make a loan (called "remuneration") after 1/5 of the contract period is completed and deposits made as contracted. The loan and deposit amounts are so calculated as to be equal, after inclusion of interest on both sides, at the end of the contract period, when the deposits and the loan are simultaneously liquidated. This scheme is designed to encourage salaried workers to save on a regular basis.

CNB Act).<sup>/1</sup> Five commercial banks and private investors hold the rest. The proposed increase in the authorized capital to W 100 billion was approved by the National Assembly in December 1981. Its paid-in share capital is scheduled to increase by W 10 billion a year starting in 1982 (para. 4.42).

#### Operating Policies and Development Strategy

4.06 In 1979, CNB adopted a Policy Statement (Annex 3) to supplement the operational guidelines of the CNB Act. Apart from establishing CNB's maximum exposure limits in any single enterprise,<sup>/2</sup> this statement defines in broad terms the types of enterprises and industries to which CNB should give priority in its lending operations. CNB has so far complied with the provisions of its Policy Statement.

4.07 In 1980, CNB formulated, in consultation with the Bank, a Development Strategy for 1980/81 (Annex 4) outlining priority areas of financing and its specific developmental objectives such as promotion of small and labor-intensive projects, improving geographic dispersal of financing activities, raising long-term local currency resources, expanding deposit resources and strengthening research activity with particular emphasis on sector and market studies. CNB has made good progress in implementing the provisions of the above strategy with the exception of raising long-term local currency resources (para. 3.06).

4.08 Recognizing the need to play a more meaningful role as an allocator of resources for meeting the medium- and long-term credit needs of SSEs, CNB drew up an "Outline of Development Strategy for 1982-86" (Annex 5) <sup>/3</sup> in consultation with the appraisal mission. Supplementing the 1980/81 Development Strategy described in the preceding paragraph, the medium-term strategy reflects CNB's serious intention to transform itself into an

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<sup>/1</sup> CNB's paid-in capital was increased by W 25 billion in 1979 (W 11.2 billion in cash and W 13.8 billion transferred from revaluation surplus) to reach its authorized capital of W 30 billion.

<sup>/2</sup> 25% of CNB's own equity; but, under the Enforcement Decree, its local currency loans and guarantees to any single enterprise are further limited to: W 50 million for equipment loans; W 40 million for working capital loans; and W 30 million for guarantees (W 200 million for guarantees involving foreign exchange transactions).

<sup>/3</sup> The planning horizon for CNB's development strategy is longer than the usual two-year time horizon normally required by the Bank because the real impact of CNB's development strategy and efforts (particularly term transformation) will be felt only in the later part of the five-year plan period.

institution engaging in term lending. During the period 1982-86, CNB plans to expand its term lending activity for SSEs and lengthen the maturity of its domestic currency equipment loans through prudent term-transformation along the lines of five-year operational/financial projections supplied to the Bank mission (para. 4.52). In order to match its institutional capabilities with the projected increase in term loans for SSEs, CNB plans to intensify training of its staff during 1982-83 (para. 4.14). The CNB's Development Strategy, which was endorsed by relevant Government officials, also signifies: both the Government's and CNB's intention to increase CNB's paid-in capital by W 10 billion a year from 1982 and onwards up to W 100 billion (para. 4.05); and CNB's intention to diversify its foreign currency resources during 1984-86. The Government delegation endorsed this Strategy Statement during negotiations. The Strategy Statement was approved by CNB's Board of Directors on April 10, 1982.

#### Institutional Efficiency

4.09 Management. Mr. Byoung Soon Song, the former Chairman of the Korea Credit Guarantee Fund (KCGF) was appointed President on July 30, 1980. He is assisted by a Deputy President, Mr. Sang Chan Kim (the former Executive Director in charge of the International Department) and five Executive Directors, each in charge of three to four of CNB's 19 departments (see Organizational Chart). The present top management team (Annex 6) is effective and innovative. Since the new team assumed office, a number of institutional reforms have been introduced to streamline CNB operations. CNB has an experienced and well-rounded cadre of managers at the department and branch levels. Most of them have served as managers in several departments and branches as a result of relatively frequent rotation. CNB also has considerable managerial depth with well-groomed and capable people at the deputy manager level.

4.10 Organization. As of December 31, 1981, CNB had 19 departments at the Head Office, 181 branch and subbranch offices widely scattered all over Korea and 16 deposit offices (see Map). In the past two years, 24 new branch and subbranch offices and 10 new deposit offices were opened, and some important organizational modifications at the Head Office were introduced: (a) to separate from and upgrade three divisions (Foreign Capital, Foreign Loan and Procurement Divisions) of the International Department (ID) to a new Foreign Loan Department (FLD);<sup>/1</sup> (b) to expand the

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<sup>/1</sup> This development is justified for two reasons: CNB obtained a license of "A" class (or full-fledged) foreign exchange dealership on October 2, 1981. Newly added short-term export/import financing operations and letter of credit services in addition to existing foreign exchange dealing operations would keep the management of the ID fully occupied without the three divisions handling foreign currency relending business; and, more important, CNB's foreign currency relending operations, which started in 1979, have been expanding rapidly as its long-term foreign currency borrowings increase. To date, CNB has obtained two loans from ADB totalling \$40 million and one loan from IBRD of \$30 million.

functions of the Research and Development Department by the formation of an industrial research unit which is responsible for conducting operations-oriented subsector and market surveys; (c) to upgrade the Training Department to an Educational and Training Institute in 1981 for better implementation of a comprehensive training program (para. 4.13); and (d) to consolidate the former Savings Department and Credit Card Department /1 under a new Customer Development Department, and the former Loan Administration Departments I and II under a new Customer Support Department for the delivery of better service to its clients.

4.11 Staffing. As of August 31, 1981, CNB had a total of 8,109 staff, of which about 22% were senior professionals. Nearly 82% of total staff were assigned to the branches, which are the focal points of client contacts. Since September 1979, CNB's staff strength has increased by 1,685. Staff strength of direct relevance to CNB's term lending operations has also increased since 1979: those staff handling foreign currency relending (now assigned to FLD) from 23 (including professional staff of 12) to 47 (including professional staff of 23); total staff in the Credit Analysis Department from 34 to 73; and total staff in the Research Department from 37 to 51. Turnover of CNB's professional staff has been low (3-5% in 1979-81). CNB projects a growth in staffing of 7-8% p.a. during 1982-84 which appears reasonable in light of CNB's expanding operations. CNB's staff is highly motivated and generally competent. However, term lending based on project appraisal is relatively new to CNB and to most of its professional staff.

4.12 Administrative Expense. CNB has been able to keep its administrative expenses relatively stable while expanding its branch network and diversifying banking and development-oriented services to the household and SSE sectors. In relation to its average total assets, administrative expenses were 4.1% in 1979 but dropped to 3.8% in 1980. Given the large number of deposit accounts (nearly 6 million) and loan accounts (nearly 442,000) CNB is servicing, the level of overhead cost is not excessive. Wages and salaries accounted for 69% of total administrative expenses in 1980. CNB estimates that over 80% of total personnel expenses were attributed to the savings/resource mobilization activities and about 20% to lending activities. In 1980, administrative expenses related to deposit mobilization represented 3.8% of the average daily balance of deposits; and administrative costs related to lending operations were only 0.8% of the average daily balance of outstanding loans. Branch staff accounted for 97% of wages and salaries expenditures in 1980. The level of CNB's administrative expenses favorably compares with that of commercial banks in Korea; and overhead relative to lending operations, with those of other specialized banks in Korea (about 1% of average total assets).

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/1 CNB is the only banking institution in Korea which issues its own credit card (para. 4.28).

4.13 Training. CNB's professional staff is recruited mainly among college graduates, who undergo on-and-off-the-job training and whose rotational assignments are frequent so as to develop versatile, well-rounded managers. The tradeoff, however, has been that CNB's staff, with a few exceptions, have not developed sufficient depth in specialized fields. On the other hand, increasing computerization of its operations in the face of the large influx of new recruits has necessitated CNB's continuing emphasis on basic awareness courses on banking in general, CNB's practices and procedures, and human relations and management skills in order to avoid operational work of its staff degenerating into mechanical exercises. In 1980, 1,141 staff attended 16 in-house courses (including 3 professional/technical programs for 341 staff) in addition to orientation courses offered for 689 new recruits; 633 staff participated in 57 courses (including 3 professional/technical programs which 193 staff attended) offered by the Korea Training Institute of Banking; 109 staff attended other external courses; and 44 staff went overseas for training. With a view to expanding its own capability of providing continuous training programs in line with the changing needs of its staff, CNB established in April 1981 its own training institute which has the capacity to accommodate 250 trainees at any given time. The institute has 19 professional staff, including 7 full-time instructors, and has developed a comprehensive training program for 1982/83.

4.14 Understandably, the new training program is still focusing on basic awareness courses. But it also includes a number of professional/technical courses specifically designed for strengthening CNB's term lending capabilities based on experience gained during 1979-81. Since 1979, CNB has been building up staff expertise in foreign currency term lending. Initially (March/April 1979), CNB invited a group of senior officers from KDB and SMIB to train all CNB staff involved in foreign currency term lending for two months. This training comprised one month of lectures on project identification, appraisal, procurement and supervision, followed by one month of case studies of projects actually financed by SMIB. In June 1980, CNB's own staff conducted a seminar on foreign currency term lending for 41 officers from large branches with a view to promoting their active participation in foreign currency lending business. In 1981, 61 staff from different branches underwent a comprehensive four-stage training program on foreign currency term lending. This program encompassed: (i) two weeks of classroom lecture; (ii) two weeks of on-the-job training at the FLD; (iii) case studies through correspondence; and finally (iv) two weeks of intensive classroom discussion. CNB plans to repeat this program on a somewhat larger scale every year for branch staff and other staff to be transferred to branches.<sup>/1</sup> Details of CNB's training program,

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<sup>/1</sup> CNB also plans to increase the number of credit analysts certified by Korea Training Institute of Banking from the present 51 to 100 by the end of 1982 and further to 300 by the end of 1983 so that it may assign at least 1 credit analyst to each of the branches. CNB is also exploring all the training opportunities abroad.

particularly those related to strengthening of CNB's term lending capabilities, were reviewed further during negotiations and found to be satisfactory. The program would be implemented with the Bank Group's assistance including a visit by an EDI lecturer to CNB.

4.15 Term Loan Appraisal. In judging CNB's term lending capability and the quality of its appraisal works for domestic currency equipment loans, it is essential to take into account the following factors:

(a) CNB's SSE clients consist of a large number of unsophisticated small firms who, in most instances, cannot meet all the information requirements normally required by DFCs; (b) the number of domestic currency equipment loans handled by CNB a year, although small relative to total annual number of loan approvals of 200,000-250,000 cases, is large in absolute terms ranging from 4,200 to just over 5,000 cases a year and the average size of these equipment loans has been very small (below W 5 million or \$7,200); (c) the bulk (about 75%) of domestic currency equipment loans has been made under the MISRS (para. 4.04) which in effect gives the depositor the right to borrow without leaving CNB with much flexibility in making lending decisions as long as borrowers meet the collateral and the contracted deposit requirements; (d) for the reasons stated in (b) and (c) above, lending decisions are made in most cases (over 90% of total number of domestic currency equipment loans approved) at the branch level; and finally (e) CNB's domestic currency equipment loans have been extended basically on short-term (para. 4.22).

4.16 In light of the foregoing, term loans in domestic currency had not, in any substantive sense, been made by CNB until July 1981 when CNB was given the access to the BOK-managed NIF. From July 1 through October 31, 1981, CNB approved 65 loans (with maximum maturity of 8 years including a grace period of 3 years) totalling W 2 billion under the above facilities.<sup>/1</sup> The appraisal standards used for these loans, although focusing more on the study of the borrowers' creditworthiness, are essentially the same, in terms of coverage, as those used for foreign currency subprojects below the free limit but demand less rigorous analysis. However, even the above minimum standards have been found difficult to meet by most of CNB's branches mainly because of lack of trained manpower. Hence, staff at the Head Office (particularly those in Credit Analysis Department and those in the Finance Division of the Customer Support Department) often provide substantial input to improve the quality of appraisal reports prepared by branches. The BOK seems to be generally satisfied with the quality of CNB's appraisal work. As indicated in para. 4.14, CNB is already taking steps to improve the term lending capabilities of its branches.

4.17 The standard and quality of appraisal work for foreign currency term loans are much higher and markedly better than those for domestic currency equipment loans, reflecting adequate steps taken by CNB's management to ensure that its appraisals are fully satisfactory to the Bank.

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<sup>/1</sup> CNB drew down a further W 4 billion from these facilities by the end of 1981. However, it is not clear whether CNB will continue to have the access to these facilities in 1982 and onwards.

These steps included staffing (the FLD staff were selected from the best available candidates within CNB), training (para. 4.14), and close supervision of appraisal work by senior management. This effort, together with the continuing dialogue on each subproject subject to the Bank's approval, has resulted in the initial major improvements and the gradual refinement in project appraisal. With Loan No. 1829-KO, CNB began calculating economic rates of return for all projects above the free limit of \$250,000. Systematic project evaluation is now routine. Full appraisal reports are prepared for subloans above the free limit and less detailed ones for those below the free limit; the quality of these reports is satisfactory. So far appraisal of subprojects has been centralized at the Head Office to ensure the quality of subloans. To stimulate the active participation of branches in foreign currency term lending activities (thereby further broadening its clientel base) and to speed up subproject processing, CNB planned to delegate in 1982 the authority to undertake preliminary selection of subprojects to 61 branches whose staff underwent special training in 1981 (para. 4.14). Among these 61 branches, 21 large branches whose staff underwent further intensive training in 1981 will be given the authority to approve subloans up to \$100,000 from 1982. This move, after comprehensive training of branch staff in 1981, represents the first step toward expanding CNB's term lending capacity and disseminating more sophisticated term lending techniques within CNB.

4.18 Term Loan Supervision. CNB's supervision of domestic currency loans is satisfactory and effective. Its deposit taking power provides CNB with effective supervision tools. Virtually every CNB client borrowing term loans maintains deposit account with CNB and also borrows working capital loans. Thus, contacts of CNB branches with borrowers are frequent and intensive. Accordingly, CNB is provided with a built-in monitoring system on clients. Supervision of project implementation under domestic currency equipment loans is done through monitoring a credit control account to which the full loan amount is credited as soon as the loan is committed; payments are made from that account as actual expenditures and progress are certified usually through plant visits and checking of documents. Plant visits and project records during disbursement stage are well documented and kept. After the project completion, projects are normally visited at least once a year and projects with problems are visited more frequently, in some cases once a month. Findings of follow-up visits of problem accounts are always recorded on follow-up cards, and are reported to the branch managers, in some cases, to the Extension Services Division of the Credit Analysis Department at the Head Office and, in hopeless cases, to the Loan Management Department for legal action. As CNB's excellent collection performance and consequent low arrears position indicate, CNB has been exceedingly effective in supervising its loans.

4.19 CNB's foreign currency loan portfolio, which is young and small both in number and amount (less than \$10 million for 65 subprojects as of June 30, 1981), has so far been supervised by four staff in FLD.



Recognizing the need to entrust routine supervision of subprojects to branches, CNB formulated suitable guidelines on subproject supervision to be undertaken by branches on February 17, 1981. The delegation of this responsibility to branches and the actual transfer of related subloan documents, which were originally scheduled to take place in November 1981, have been delayed to ensure that branches familiarize themselves with the guidelines. Also, CNB was considering the introduction of a suitable subproject monitoring system which would enable it to assess actual benefits derived from subprojects and compare them with appraisal projections. Specific measures taken by CNB in strengthening its subproject supervision capability and progress being made in developing a subproject monitoring system were reviewed during negotiations and found to be fully satisfactory. CNB has been informed that, in the course of Bank's normal supervision, particular attention will be given to the effectiveness of the subproject monitoring system.

4.20 Procurement and Disbursement. CNB's procurement procedures conform to the Government's guidelines (which emphasize competitive bidding and the contract award to the lowest bidder and which are strictly enforced through annual audit by the State Audit Board) and to the special requirements of small firms. Procurement is normally based on limited competitive bidding procedures with at least three competitive quotations from potential suppliers. Before inviting quotations from potential suppliers named by the subborrower, CNB's engineers carefully review the specifications of machinery and equipment to ensure that specifications do not give undue competitive advantage to specific supplier. CNB's procedures for inviting quotations, bidding and contract award are satisfactory. A separate division in FLD with close coordination with CNB engineers handles procurement matters. CNB's control over disbursement for subprojects is also satisfactory.

#### Overview of CNB's Operations

4.21 As a "grass roots" savings bank for the general populace and as a development bank catering exclusively to the SSI sector, CNB provides a wide range of financial services to its clients. These include: a complete package of deposit accounts services; credit card business; loans to general populace for financing housing, hospital and educational expenses; and provision of finance to SSEs for working capital and for acquisition of equipment and other fixed assets through its equipment loans in local and foreign currencies, working capital loans, overdrafts, discounting of trade bills, foreign exchange services, and other banking services. In addition to its financial assistance, CNB offers limited but useful extension services to its SSI clients in coordination with SMIPC. CNB's loan portfolio comprised over 440,000 clients (including about 49,000 SSE clients) as of June 30, 1981. Total outstanding loans amounted to W 996 billion (\$1.4 billion) of which 49% were general populace loans, 46% working capital loans and 5% equipment loans. Since the last appraisal of CNB in 1979, CNB's lending operations (Annex 7) have expanded by 52% from W 401 billion in 1979 to W 610 billion in 1980. Loan approvals were W 401 billion in the first six months of 1981 and are expected to reach W 880 billion by the end of 1981.

4.22 Equipment Loans. As stated in para. 4.16, term lending for fixed asset financing is a relatively new activity for CNB. As of June 30, 1981 CNB's equipment loan portfolio stood at W 44 billion and accounted for a mere 5% of total portfolio. However, local currency equipment loans, which represented 86% of total equipment loan portfolio, were basically extended on short-term largely under the MISRS; maturities of these loans, although contractually one to five years with the weighted average maturity (by amount) of 2.8 years, have actually been only about 1.5 years. This phenomenon is mainly attributable to "domestic credit ceilings (or guidelines)" under which the Government determined CNB's credit expansion limit (growth rate of loans outstanding).<sup>/1</sup> Because of this system and other factors discussed in para. 4.40, CNB tended to make domestic currency equipment loans shorter than desired by borrowers with a view to benefitting as many clients as possible. Reflecting high turnover of existing portfolio and relatively small annual lending volume, CNB's domestic currency equipment loan portfolio has not grown as fast as could have been expected. In order to better meet the demand for equipment financing in the SSE sector, CNB needs to increase substantially its domestic currency financing while also lengthening the maturities of such loans. Under the proposed loan, CNB and the Bank address this issue (para. 4.51).

4.23 CNB's approvals of equipment loans increased only marginally (6%) in 1980 thanks to the sharp increase (from W 850 million in 1979 to W 4,554 million in 1980) in foreign currency equipment loans. Domestic currency equipment loans, however, declined both in number (from 5,021 in 1979 to 3,987 in 1980) and amount (from W 19.9 billion to W 17.4 billion) reflecting the severe economic recession and political uncertainty that prevailed in 1980. In the first six months of 1981, domestic currency equipment loans reached W 10 billion (representing 15% growth on an annual basis), foreign currency equipment loans W 7.6 billion (237% increase on an annual basis). Average size of domestic currency equipment loans, which hovered around W 3.3 - W 4.4 million during 1977-80, rose to W 5.3 million in the first half of 1981; that of foreign currency equipment loans rose from \$130,000 in 1979 and 1980 to \$165,000 in the first half of 1981, reflecting mainly the price increases of capital goods. Maturity of foreign currency equipment loans, unlike that of domestic currency loans which is too short, averaged about 8 years.

4.24 Working Capital Loans. Working capital loans expanded rapidly and remained a significant component of CNB's loan portfolio. Net approvals of working capital financing which amounted to W 78 billion or 52% of total approvals in 1979 rose by 68% to W 132 billion, or 45% of total approvals in 1980. The rapid growth of loans for working capital in 1980 resulted mainly from the need to finance inventory accumulation due to the sluggish

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<sup>/1</sup> This system, which had been introduced in 1973, was abolished in January 1982.

demand for Korean products at home and abroad. As of June 30, 1981, outstanding working capital loans amounted to W 463 billion, or 46% of the total portfolio.

4.25 General Populace Loans. General populace loans are extended to salaried workers to finance the basic needs of households such as housing, hospitalization, education and the purchase of consumer durables. Both by number of clients and amount of loans, these loans have been the mainstay of CNB's lending program. As of June 30, 1981, over 385,000 clients (87% of total borrowers) had outstanding loans amounting to W 489 billion (49% of total portfolio). The growth of lending to general populace has continued uninterrupted; between 1977 and 1980 loan approvals increased at an annual average of 42.5%. The average size of these loans was W 1.3 million (\$1,900). Access of low wage earners to institutional finance has been greatly facilitated by the borrowing privileges offered under the MISRS. Apart from the Korea Housing Bank, which is specialized in providing housing finance, CNB has been most active in extending loans for acquisition of low-cost houses and in meeting the financial needs of the household sector. For this reason, CNB has been successful in mobilizing deposits from the household sector.

4.26 Guarantee Operations. CNB issues short-term guarantees against trading documents, payments of import duties, etc. as part of the commercial banking services to its clients. As of June 30, 1981, outstanding guarantees amounted to W 767 million for 51 clients; there was no long-term guarantee. In addition, CNB has entered since 1976 a special arrangement with the Korea Credit Guaranty Fund (KCGF) under which CNB makes loans not-fully-collateralized up to a limit of W 20 million, beyond which KCGF's prior approval is required. CNB's loans covered under this special scheme amounted to W 84 billion as of June 30, 1981.

4.27 Securities Investment Operations. A substantial portion of CNB's large liquid assets arising from its successful mobilization of deposits and the restrained growth of its loan portfolio under the "domestic credit ceiling" system was invested in short-term government and quasi-government bonds and private sector stocks and bonds. Annual volume of these operations has been large with high turnover, reaching W 372 billion in 1979, W 442 billion in 1980 and W 100 billion in the first half of 1981. Outstanding balances of securities portfolio as of June 30, 1981 stood at W 270 billion, 87% of which represented government and quasi-government bonds. CNB's holding of common shares of 17 corporations, most of which were inherited from the Korea Investment Corporation (defunct Government-controlled corporation which had been specialized in capital market development), totalled W 9.9 billion (or 3.7% of CNB's total securities portfolio). Annual rate of return on overall securities investment portfolio has been satisfactory, fluctuating from 18.6% in 1978 to 20.3% in 1980; these rates are somewhat higher than the average rate of return on CNB's overall loan portfolio which was 17.3% in 1978 and 19.5% in 1980. CNB has so far managed its securities portfolio

reasonably well. But in a situation of increasing term transformation CNB should give greater consideration than previously to marketability and expected rate of return before making future securities investments. A provision to this effect is reflected in CNB's Development Strategy Statement.

4.28 Credit Card Business. With a view to diversifying its financial services and attracting additional savings, CNB started credit card business in September 1980. CNB is the first and only bank authorized to issue its own credit cards. In October 1981, CNB credit card holders numbered 250,000 persons and the total number of affiliated shops throughout Korea was 15,000. By the end of 1981, CNB expects to have 300,000 card holders. CNB is exploring the possibility of linking up with a major foreign credit card.

4.29 Extension Services. The extension assistance provided by CNB had been focused on managerial and financial matters of SSEs until 1980 when CNB created a new managerial Guidance Division in the Credit Analysis Department. With the creation of this Division (which has now 8 managerial extension officers and 14 engineers), the number of beneficiaries of CNB's extension services increased from a mere 5 firms in 1979 to 40 firms in 1980 and to a further 62 firms in the first 10 months of 1981, and the scope of CNB's assistance has been broadened to include production technology assistance to 14 firms in 1981. Based on the recent study on the national extension services (para. 2.12), the Government has designated CNB as one of five extension service agencies in Korea. CNB is expected to provide extension assistance to its clients who have no access to the services of SMIPC and KOPTEC. Given the increasing importance of CNB as an extension service agent, CNB's plan for delivering extension services to SSEs and the adequacy of its institutional capability to deliver the planned services were reviewed during negotiations and found to be in line with the expected role of CNB under the new arrangement.

4.30 Research Activities. CNB regularly compiles and analyzes data on actual conditions of small industries in the country. So far it has completed 6 comprehensive surveys of the SSI sector, which formed part of the Government's National Wealth Survey, and has completed studies on 16 specific subsectors including ceramics, metal products, textiles, chemical products, construction, etc. The objective of these studies is to analyze the supply/demand situations of these subsectors. Therefore, these studies can be integrated in CNB's appraisal work. The newly established (1981) Industrial Research Division (staffed with four economists, two business management specialists and one statistician) is in charge of these studies. The capability of this new unit, however, is still being developed along with appropriate research methodologies. The studies could have been more operations-oriented given the increasing involvement of CNB's branches in term lending activity. As reflected in its Development Strategy for 1982-86, CNB will continue to strengthen its research activities, with particular emphasis on sector and market studies. CNB's research work program, details of which were reviewed during negotiations, includes,

among others, the publication of its research work which would cover an analysis of overall status of Korean SSEs, trends and prospects of specific subsectors, and periodic surveys of subsectors in which CNB has large exposure. The outcome of these research activities will be made available to CNB's operational staff, including those in branches, to enhance project evaluation capability. CNB's performance in this area will be monitored as part of the Bank's normal supervision effort.

#### Efficiency in Resource Allocation

4.31 CNB's efficiency in allocating its loanable funds can be gauged by analyzing its performance vis-a-vis its Development Strategy for 1980/81, which outlines priority areas of financing and its specific developmental objectives (para. 4.07), and specific agreements reached with the Bank under Loan No. 1829-KO in utilizing the Bank's resources.

4.32 Sectoral Distribution. The manufacturing sector accounted for 55.1% of all equipment loans outstanding as of June 30, 1981 (Annex 8). Within manufacturing, machinery and textiles were the two dominant subsectors representing respectively 14.6% and 10.1% of total outstanding equipment loans. In the first half of 1981, CNB's commitments to the manufacturing sector accounted for 50.1% of total commitments of equipment loans, up from 46.3% in 1980. In the manufacturing sector, transportation (e.g., passenger buses and trucks largely financed by local currency) and services (e.g., hospitals, computer services, and repair shops) predominate and accounted for 19.9% and 19.1% of total equipment loans outstanding as of June 30, 1981. In line with the spirit of its development strategy for 1980/81 and Government policy, CNB's financial assistance to small machinery industries has steadily increased since 1979. The share of machinery industries in total equipment loans outstanding rose from 10% at end of 1979 to 14.6% as of June 30, 1981; their share in CNB's total equipment loan commitments reached 15.2% in the first half of 1981. In its "Outline of Development Strategy for 1982-86," CNB has specifically stated its intention to actively assist SSEs in the machinery subsector to the modernization of which the Government is giving a high priority.

4.33 Geographic Distribution. In accordance with its Development Strategy for 1980/81 and in compliance with the agreement reached with the Bank under Loan 1829-KO, CNB has achieved reasonable success in diversifying the geographic distribution of its operations. The share of commitments to projects in Seoul city has gradually declined from 57% in 1978 to 43% in 1980 and further to 41% in the first half of 1981, reaching the agreed goal of limiting to 50% the share of Seoul in its total lending. CNB will continue to pursue the objective of diversifying its lending outside the Seoul area under its Development Strategy for 1982-86.

4.34 Assistance to Smaller SSEs. CNB's equipment loans have been channelled mainly (53%) to very small firms employing 5-20 workers, 34% to small firms employing 21-50 workers and only 13% to firms employing 51-100 workers during the 18 months ended June 30, 1981. In terms of asset size of borrowers,<sup>/1</sup> the trend is upwards with the weighted average rising from W 145 million in 1979 to W 170 million (about \$250,000). This 17% rise in the average asset size of borrowers was, however, lower than inflation during that period and therefore represented a decline in real terms. Over 67% of foreign currency loan approvals in terms of amount (over 75% in terms of number) have been made to firms with total assets below W 250 million. CNB has satisfactorily complied with the agreed requirements that a minimum of 50% of the Bank loan (1829-KO) for financing subprojects be for smaller firms with assets of less than W 250 million or 50 workers.

4.35 Assistance for Modernization. Reflecting the Government's emphasis on modernizing SSEs with a view to improving their competitiveness both at home and abroad, the bulk (90%) of CNB's foreign currency equipment loans have been made for modernization/expansion of SSEs. Only 16 out of 129 projects (or 10% in loan amounts) financed by CNB in foreign currency were for establishment of new projects. This trend is likely to continue given the Government's commitment to restoring industrial efficiency through, among others, modernization of SSEs.

4.36 Economic Impact of CNB Financed Projects. The sheer volume and the diversity of CNB's operations make it difficult to compile comprehensive data which would make possible quantification of CNB's contribution to economic development. An ex ante evaluation of partial economic indicators on a sample of 232 loans made by CNB during 1978-80 provides, however, an impression of the economic benefits deriving from CNB's local currency equipment financing. These 232 projects received CNB's domestic currency equipment loans totalling W 4.8 billion as against their total capital expenditure of W 13.4 billion. These projects were expected to create 1,970 new jobs at an average cost per job of \$6,000. Incremental annual sales generated by the projects were estimated to be W 25.1 billion, or nearly twice the size of the initial investment outlay. The projects were expected to generate foreign exchange earnings of W 4.0 billion (\$5.8 million) a year. Incremental value added was estimated at W 7.1 billion a year.

4.37 Economic Impact of IBRD Subprojects. CNB received the first IBRD loan of \$30 million in 1980. Under this loan, 91 productive projects were financed as of September 30, 1981. The construction industry accounted for 28% (\$3.6 million for 22 projects) of total loan commitments (\$13 million) as of September 30, 1981; the remaining projects were spread among a wide range of industries. Bank-financed projects are expected to generate 2,114

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<sup>/1</sup> Borrowers of CNB's foreign currency equipment loans. No data on local currency borrowers are available.

new jobs at an average capital cost per job of \$9,600. The higher cost/job for Bank-financed projects compared to that for domestic currency equipment loans is due to the fact that the Bank loans have been used for financing imported capital goods, which in turn are used in projects that are relatively high technology-oriented and more capital-intensive than those using domestic equipment. Fourteen /1 of the 91 projects planned export sales of at least part of their production; their aggregate foreign exchange earnings would be about \$15.5 million annually. The Bank-financed projects are expected to yield economic rates of return ranging from 27% to 61% (compared with financial rates of return of 20% to 32%).

#### Efficiency in Resource Mobilization

4.38 In a country like Korea, where demand for funds exceeds available supply, the ability to mobilize increasing amounts of resources has been a determining factor of the efficiency and success of a financial institution. CNB has been exceedingly successful in mobilizing domestic currency resources through deposit taking from the household sector since its inception and, to a less extent, in raising foreign currency resources from 1979. As of December 31, 1981, CNB had mobilized total resources of W 1,882 billion (\$2.6 billion) of which W 1,837 billion or nearly 98% were in local currency. Deposits mobilized accounted for 94% of its total resources and nearly 11% of aggregate deposits of the banking system, making it the largest mobilizer of deposits in Korea. About 78% of CNB's deposits are short-term. Armed with the MISRS, which CNB has the exclusive right to operate, the wide branch network and dedicated staff, CNB has built up a stable deposit base with about 6 million deposits accounts. The phenomenal, steady growth (at an average annual rate of 30% since 1970) and stable nature of its deposits would enable CNB to move prudently towards term-transformation of a portion of its large deposit resources (para. 4.51). Foreign currency resource mobilization started only in 1979 when ADB granted its loan of \$10 million to CNB, which was followed subsequently by an IBRD loan of \$30 million in 1980 and a second ADB loan of \$30 million in 1981. Although CNB has been successful in mobilizing increasing amounts of foreign currency resources entirely from ADB and IBRD, alternative sources of foreign currency resources need to be identified and developed to support its increasing level of foreign currency lending (para. 4.56).

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/1 Include five textile projects, three chemical (plastic) projects, two printing projects, and one each of ceramics, wood products, metal products, and green tea processing.

### Financial Position

4.39 CNB's audited balance sheets as of December 31, 1977-1980 and unaudited balance sheet /1 as of December 31, 1981 are shown in Annex 9. At the end of 1981, CNB's total assets stood at W 2,020 billion having grown at an average annual rate of over 35% since 1977, well above the average annual rate of inflation of about 22% during the period. CNB's asset composition continues to be heavily oriented toward short-term assets. Liquid assets including cash, deposits with other domestic banks, call loans, and security investments accounted for over 35% of total assets during 1977-81. At the end of 1981, short-term loans represented 11.4% of CNB's total assets and term loans accounted for 47.4% of total assets. The bulk of these term loans, however, were extended basically on short term as reflected in the large balance of current maturities of these loans, which stood at 73.7% of total term loans or 35% of total assets at end 1981. Thus, current assets have continued to represent over 83% of total assets since 1979. Moreover, most of the remaining term loans /2 (net of current maturities), which represented 12.5% of total assets at end 1981, were to be collected within two years. Therefore, long-term assets (with maturity of over two years) reached only about 5% of total assets, represented by fixed assets (2.2% of total assets), outstanding IBRD and ADB subloans (0.5%), and other assets (2.1%).

4.40 This bias towards short-term assets reflects the fact: (a) that CNB's assets were financed largely by deposits (88.0% of total assets), most (about 78%) of which were short-term; (b) that the amount of long-term borrowed funds made available to CNB has been negligible (only 0.8% /3 of total resources); (c) that CNB's equity base had been extremely thin (only 1.3% of total assets) until late 1979 when CNB's paid-in capital increased six-fold; and, perhaps most important, (d) that CNB's overall volume of lending had been guided by "domestic credit ceilings (or guidelines)" under which the Ministry of Finance determined CNB's credit expansion limit (growth rate of loans outstanding). Because of this system, CNB tended to make short-term loans with a view to benefitting as many clients as possible. /4 Also, CNB's limited term lending capability especially at the branch level has made it difficult for CNB to substantially expand the term loan portfolio.

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/1 Preliminary.

/2 With the exception of IBRD and ADB subloans.

/3 Nearly 67% of this long-term fund were represented by funds drawn down from IBRD and ADB lines of credit.

/4 By doing so, high turnover of loan portfolio can be maintained within the prescribed credit expansion limit.



4.41 Despite a large portion of its debt being short-term, CNB's liquidity position continues to be comfortable with the current ratio of 1.1:1 and the large balance of surplus liquid assets of about W 500 billion (nearly \$720 million, net of reserve requirements). Also, its loans/deposits ratio of 64% as of June 30, 1981 was substantially lower than 98.5%/1 for aggregate figures of all commercial banks in Korea as of the same date. CNB's equity base increased from a mere W 11 billion (or 1.3% of total assets) at end 1978 to W 53.8 billion (or 2.7% of total assets) at end 1981 mainly as a result of a W 25 billion increase in paid-in capital in 1979. Consequently, CNB's total debt/equity ratio declined from 77:1 at the end of 1978 to 36:1 at the end of 1981; risk assets /2 to equity, from 31:1 to 17.5:1; and long-term debt/equity ratio as defined under the first Bank loan to CNB, from 14.4:1 to 4.7:1, well within the contractual limit of 7:1.

4.42 A long-term debt/equity ratio of 7:1 with adjustments by excluding current maturities of long-term debt, BOK's reserve requirements on term deposits and remunerated installment savings was first agreed upon between CNB and ADB in 1979. This definition and the level of long-term debt/equity ratio were accepted by the Bank under the first Bank loan to CNB. However, in a situation of term-transformation supported under the proposed Bank loan, long-term debt under the existing definition may tend to get understated. Also, it is necessary and appropriate to make both the definition and the level of long-term debt/equity ratio for CNB consistent with those of other DFCs in Korea. Therefore, it is proposed that CNB's long-term debt be defined as "long-term debt (irrespective of remaining maturity) plus long-term guarantees minus remunerated mutual installments collected under the mutual installment savings" (which in fact represent the portion of principal installments collected under the mutual installment savings scheme) and provisions for retirement grants. Also, a new ceiling of debt/equity ratio of 10:1 under the new formula is proposed. CNB's debt/equity ratio under the new formula was 6.1:1 in 1980 and 7.6:1 in 1981 and will range 7.6:1 in 1982 to 9.2:1 in 1986 with the scheduled share capital increase of W 10 billion a year from 1982 and onwards up to W 100 billion./3 Agreements on the new definition and new ceiling of debt/equity ratio were confirmed at negotiations. Furthermore, the Government has undertaken to participate in increases in CNB's share capital as needed in the future to enable CNB to maintain the long-term debt/equity ratio within a limit of 10:1.

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/1 Loans financed by banking funds (i.e., deposits) to total deposits.

/2 Total loans outstanding minus remunerated installment savings which represent the portion of principal installments collected under the mutual installment savings scheme.

/3 Without the scheduled increase in paid-in capital, debt/equity ratio would exceed the proposed new ceiling of 10:1 from 1983.

## Financial Performance

4.43 CNB's audited income statements and cash flow statements for 1977-80 and unaudited /1 income statement for the year ended December 31, 1981 are summarized in Annexes 10 and 11. While CNB's gross income rose by 55% from W 147 billion in 1979 to W 228 billion in 1980, its net income grew nearly seven times from W 2.1 billion in 1979 to W 14.6 billion. Return on average total assets rose from a mere 0.2% in 1979 to 1.1% in 1980; return on average equity, from 9% to 35% in 1980. This sudden turnaround in CNB's profitability reflected: (a) the higher gross spread /2 brought about mainly by the decrease in reserve requirement and partly by the changes in Korea's interest rate structure /3 (para. 2.24); (b) a decline in administrative expenses relative to total assets from 4.1% in 1979 to 3.8% in 1980; and (c) income tax holidays enjoyed by CNB (CNB and other Government-owned financial institutions have been exempt from income tax but they will have to pay income tax from 1982 and onwards). In 1981, CNB's net income declined to W 7.1 billion, reflecting a reversion of gross spread to the 1979 level /2 and a substantial increase in provision for doubtful accounts (from W 1.6 billion in 1980 to W 5.9 billion in 1981). CNB's profitability, although declined in 1981, still remained adequate with a return on average equity of 15%. CNB increased its dividends from 10.5% with the payout ratio of 45% in 1979 to 18% with the payout ratio of 37% in 1980. CNB proposes a dividend of 15% for 1981 with a payout ratio of 63%.

4.44 Quality of Assets. CNB's assets are of exceptionally good quality. Almost 40% of CNB's assets are in liquid form; they earned a satisfactory annual rate of return of 19.4%/4 in the first half of 1981 (down from 20.8%/4 in 1980). CNB's loan portfolio is unusually sound particularly in the light of the large number of small loan accounts CNB is servicing. As of June 30, 1981, CNB had W 996 billion outstanding loans in 441,535 accounts. The average size of loan accounts was only W 2.3 million (or \$3,300). The level of arrears on CNB's loans accounted for 1.3% of total loans outstanding as of June 30, 1981, a deterioration from 0.7% at

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/1 Preliminary figures.

/2 Gross income as percentage of average total assets (ATA) minus financial expenses as percentage of ATA. Gross spread rose from 5.1% in 1979 to 5.5% in 1980 due mainly to the expansion of loan portfolio and income-earning liquid assets as a result of the decrease in reserve requirements, but it, in 1981, returned to 5.1%.

/3 While the changes in the interest rate structure would allow higher interest spread, CNB's interest spread, in fact, declined from 6.7% in 1978 to 6.1% in 1980 because most (70%) of the increase in CNB's loan portfolio in 1980 took place in the second half of that year.

/4 The gross rates of return on CNB's liquid assets have been somewhat higher than the gross rate of return on its loan portfolio during 1977 through the first half of 1981.

end 1980; loans affected by these arrears, however, rose from 8.2% in 1980 to 17% at end June 1981 (Annex 12). CNB has maintained a good loan collection performance while keeping rescheduling to about 3% of total loans outstanding. Collections of principal accounted for nearly 95% of total collectibles in the first half of 1981, but this represented a deterioration over the 1980 level of 98.4% (Annex 13). The slight deterioration in CNB's collection performance was due mainly to the recession and the Government's tight credit policy which affected the Korean economy.

4.45 CNB's generally good collection performance and low arrears position largely reflect the effectiveness of its supervision and collection procedures, its effective utilization of the Loan Readjustment Corporation which processes foreclosures on behalf of financial institutions /1 and a credit information system operated by the Bank of Korea. Finally about 60% of CNB loans are made under the mutual installment savings scheme and CNB normally requires its borrowers under other types of lending to open deposit accounts before they receive loans. This practice, aside from increasing the deposit base, allows the transfer of all or part of the deposit balances to cover overdue loan installments.

4.46 Reserves and Provisions. The CNB Act requires that 25% of annual net profit be set aside as legal reserves. Such reserves stood at W 6.9 billion at end-1981. Because of relatively low payout of dividends, CNB has managed to accumulate other reserves and retained earnings totalling W 16.9 billion by end-1981. Thus, total reserves and retained earnings reached W 23.8 billion, or 2.0% of total loan portfolio as of December 31, 1981. Besides, CNB makes annual provisions for doubtful accounts; such provisions at end-1981 stood at W 9.4 billion or 0.8% of total loans outstanding. Given negligible level of write-offs in the past, sound loan portfolio, and CNB's excellent collection performance, the level of CNB's provisions seems adequate. However, CNB may find it desirable to make provisions for doubtful loans up to 1% of total loans outstanding with a view to taking advantage of the Corporate Tax Code in Korea since it will have to pay income tax from 1982.

#### Accounting and Audit

4.47 In accordance with generally accepted accounting practices for banks in Korea, CNB maintains and reports its financial records on a modified cash basis, recognizing income on an actual receipt basis and expenses on an accrual basis. This practice is acceptable to the Bank mainly because CNB's assets and annual net profit are conservatively stated to the extent that

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/1 Loans transferred to the Readjustment Corporation stood at W 557 million at end 1980 and W 361 million at end of June 1981. Proceeds of foreclosures collected from the Readjustment Corporation reached W 254 million in 1980 and W 131 million in the first half of 1981.

accrued interest receivable on loans would exceed any additional provisions for doubtful interest (accrued) receivables and because CNB's audited annual financial statements show figures on an accrual basis. According to the auditor's report, CNB's assets and annual net profit for the year ended December 31, 1980, reported on a modified cash basis, were understated by W 4.9 billion and W 1.1 billion respectively. Unaudited quarterly interim financial statements and other relevant reports required by the Bank have been submitted to the Bank within three months after the close of each quarter; unaudited annual financial statement and other required reports, within four months after the close of each fiscal year; and auditor's reports, within five months after the close of the fiscal year. The existing requirements have been satisfactorily met by CNB.

4.48 CNB's accounts and its internal control system are examined by the internal auditors (particularly with a view to preventing the abuse of the electronic data processing (EDP) banking system and strengthening internal controls), the State Audit Board, the Board of Bank Audit of BOK, the Bank Audit Unit of the Ministry of Finance, and an external independent auditor. San Kyong & Company, a firm acceptable to the Bank, has been CNB's external auditor since 1979; they found CNB's 1980 accounts satisfactory.

#### Business Prospects

4.49 GNP grew by about 7% in 1981 and is expected to increase at an annual growth rate of 7.6% in real terms during the Fifth Five-Year Plan period 1982-86. Fixed capital formation is expected to grow at 9% p.a. during the Plan period. Given the importance attached by the Government to improving efficiency of SMIs through modernization of their facilities and operations and to deepening the structure of Korean industries through achieving a balance between large industries and SMIs, capital investments in the SMI sector as a whole are expected to increase significantly during the Plan period. CNB as an institution catering to the financial needs of small industries has taken this factor into account in projecting the lending operations for 1982-86.

4.50 CNB's overall lending operations are projected to grow at an annual rate of 30% during 1982-86 (Annex 14). The envisaged growth rate of overall lending volume is generally in line with the recent record and reasonable given the growing credit needs of household and SSE sectors. However, as manifested in its Development Strategy for 1982-86, CNB intends to significantly expand its term lending activity for acquisition of fixed investments by SSEs both in local and foreign currencies. CNB's domestic currency equipment loans, which totalled about W 100 billion during 1977-81 with annual volume between W 17 billion and W 28 billion, are projected to reach W 377 billion (or about \$494 million) during 1982-86. The annual volume of domestic equipment loans would increase from W 36 billion in 1982 to W 49 billion in 1983 during which time CNB would concentrate on training of large number of staff engaging in term lending (para. 4.14). The rate of growth would accelerate from 35% in 1983 to 40% in 1984 and 1985, but thereafter would taper off to a normal level of 30% a year. CNB's foreign currency

operations, which were started in late 1979, would total about \$275 million during the period 1982-86. CNB's disbursements of equipment loans during 1982-86 are projected to be about 11% of aggregate fixed capital formation in the SMI sector reflected in the Government's Fifth Five-Year Plan. While achievement of the targeted level of foreign currency lending operations will depend largely on the CNB's ability to mobilize suitable additional resources, its success in meeting the projected level of domestic currency equipment loans will depend primarily on its ability to undertake prudent transformation of its deposits into long-term loans and institutional strengthening at the branch level.

#### Proposed Term Transformation

4.51 The average maturity of CNB's domestic currency equipment loans has been merely 1-1/2 years (para. 4.22). This is too short for SSEs to make use of CNB loans for fixed capital investments. It is proposed that the average maturity of CNB's domestic currency equipment loans gradually be lengthened to about 5 years. This would require CNB to undertake some degree of prudent term transformation, given CNB's limited access to long-term local currency resources (para. 4.03). CNB is, in fact, in an ideal position to do so for the following reasons: (a) CNB's deposit base has been strong with about 6 million accounts of small deposits averaging about W 264,000 (or \$385) and has been growing steadily (from a relatively small base of W 80 billion at end 1970 to W 1,544 billion at end June-1981); (b) CNB has large excess reserves as noted in para. 4.41; (c) in case of a liquidity crunch, CNB has access to the Bank of Korea's "lender-of-last-resort" facility; (d) there are no regulatory constraints which prevent CNB from undertaking prudent term transformation; (e) the interest rate regime and banking practices in Korea are such that there is no risk of negative spread for CNB as a result of interest rate fluctuations. (If the interest rate structure is changed, new rates will automatically be applied to all existing as well as new loans and deposits with few exceptions); (f) CNB is allowed to charge a higher rate of interest (by one percentage point) on long-term (3 to 8 years) loans than short-term (up to 3 years) loans; and, perhaps most important, (g) "domestic credit ceilings (or guidelines)," which had effectively encouraged CNB to make short-term loans (para. 4.22), were abolished on January 8, 1982.

4.52 The nature and extent of the proposed term transformation over the period of 1982-86 are illustrated below:

|   | Actual               | Projected |        |         |         |         |
|---|----------------------|-----------|--------|---------|---------|---------|
|   | 1981                 | 1982      | 1983   | 1984    | 1985    | 1986    |
|   | (Amounts in million) |           |        |         |         |         |
| <hr/>   |                      |           |        |         |         |         |
| Disbursements of<br>local currency<br>equipment loans | W 27,917             | 36,000    | 49,000 | 69,000  | 97,000  | 126,000 |
| (US\$ equivalent)                                     | (40)                 | (50)      | (67)   | (92)    | (126)   | (159)   |
| <br>  |                      |           |        |         |         |         |
| Outstanding of<br>local currency<br>equipment loans:  |                      |           |        |         |         |         |
| Before T/T <u>/a</u>                                  | W 47,803             | 50,400    | 64,100 | 88,200  | 123,500 | 163,000 |
| (US\$ equivalent)                                     | (67)                 | (70)      | (87)   | (117)   | (160)   | (206)   |
| <br>  |                      |           |        |         |         |         |
| After T/T <u>/b</u>                                   | N.A.                 | 55,000    | 73,000 | 118,000 | 177,000 | 258,900 |
| (US\$ equivalent)                                     |                      | (76)      | (99)   | (157)   | (230)   | (327)   |
| <br>  |                      |           |        |         |         |         |
| Difference <u>/c</u>                                  | N.A.                 | 4,600     | 8,900  | 29,800  | 53,500  | 95,900  |
| (US\$ equivalent)                                     |                      | (6)       | (12)   | (40)    | (70)    | (121)   |

/a Before term transformation. Based on the average maturity of about 1-1/2 years.

/b After term transformation. Based on the CNB's proposal to lengthen the average maturity of its domestic equipment loans to 2-3 years in 1982 and 1983, to 4 years in 1984 and a further to 5 years thereafter.

/c The difference indicates a cumulative effect of term transformation on equipment loan portfolio at end of each year.

4.53 The projected increase in local currency equipment loans over the period 1982-86 reflects CNB's willingness and readiness to expand its term lending to SSEs in support of the Government development strategy for 1982-86. CNB's prudence in term-transformation is reflected in: its intention to concentrate its efforts on upgrading the term lending capability of its branches in 1982 and 1983 (para. 4.14) before accelerating the expansion of term lending and transformation of deposit resources into long-term loans; its emphasis on the quality of loans rather than on quantitative target of equipment loans; and its plan to move gradually toward term-transformation with due consideration being given to its liquidity position. The projected term lending and proposed term-transformation, although manageable from the financial standpoint, should not be viewed as inflexible operational targets since this is a new experience for CNB, but may be used as a reasonable standard against which CNB's performance in transforming itself into an institution engaging in term lending to SSEs is measured. Accordingly, CNB

would review CNB's term lending operations for SSEs for each year starting with the year ending December 31, 1982 together with CNB's projections for the following year, and on the basis of such review and consultation with the Bank determine the level of term-transformation for the following year. Understanding to this effect was reached during negotiations.

#### Resource Requirements

4.54 Local Currency Resource Requirements. CNB's local currency loan disbursements during the five-year period 1982-86 are expected to reach W 3,549 billion, consisting of W 377 billion for equipment loans, W 1,273 billion (net of collections) for short-term working capital loans and W 1,899 billion (net of collections) for general populace loans. CNB's deposit mobilization efforts will continue to be intensified, raising additional demand and savings deposits of W 3,853 billion (69% of which will be savings deposits) during 1982-86. CNB's success in realizing the targeted deposit mobilization will largely depend on CNB's ability to expand its branch network, which would, in turn, depend on its ability to raise its equity base.<sup>/1</sup> This is one of the main underlying reasons behind the scheduled increase in CNB's paid-in share capital by W 10 billion a year from 1982 and onwards up to W 100 billion.

4.55 CNB expects to cover long-term local currency resources needed for the projected equipment loans by borrowings from SMIPF (W 1.5 billion) and BOK's rediscounting facility (W 198 billion mainly from NIF) and by transforming of its deposits into long-term assets (W 178 billion) during 1982-86. Given the past record of CNB's borrowings from SMIPF and BOK, which were negligible, and the Government's plan to reduce the scope and magnitude of directed/subsidized lending program, it is doubtful that CNB's borrowings from the two sources (particularly BOK) can reach the projected level. It is likely that most of projected equipment loans will have to be funded by CNB's deposit resources through term-transformation, which appears quite feasible for the reasons stated in para. 4.51. CNB's projected resource position statement (Annex 15) indicates that CNB would continue to have a substantial uncommitted balance of deposit resources <sup>/1</sup> which could be used to cover any shortfall in CNB's borrowings from BOK and SMIPF.

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<sup>/1</sup> Under the Korean banking law, the maximum investment in bank's premises by individual bank is limited to its net worth size.

<sup>/2</sup> Annex 15 shows that uncommitted balances of "long-term" local currency resources would remain above W 130 billion throughout the projection period. Please note that the term "long-term" is used simply to indicate those resources with "remaining maturity beyond one year." In fact, most of uncommitted balances of "long-term" local currency resources consist of savings and other special deposits with remaining maturity between one and two years. Therefore, term-transformation is needed, and the large balance of such deposits make the term-transformation possible and feasible.

4.56 Foreign Currency Resource Requirements. To finance expanding foreign currency lending operations, CNB is planning to raise \$250 million over the 1982-86 period in addition to the \$46 million /1 available at the end of 1981. CNB expects that borrowings from the Bank would account for 56% and those from ADB for 36%. The remaining gap of 8% (about \$20 million) of CNB's foreign currency resource requirements will most likely have to be met through tapping foreign commercial or bilateral sources of funds. However, in light of the current unfavorable terms prevailing in the foreign commercial market and the fact that CNB caters to the very small enterprises whose financial needs would be better met by fixed interest rate loans than floating rate loans, CNB hopes to cover its anticipated gap in foreign currency resources primarily from bilateral sources. CNB has not tapped bilateral sources yet. Nevertheless, in view of longer-term importance of CNB's broadening its sources of foreign exchange resources, CNB's plans for initiating foreign commercial borrowings was discussed at negotiations and its Outline of Development Strategy for 1982-86 reflects its intention to make best efforts to tap foreign commercial funds at terms suitable for relending to SSEs. Encouraged by the Bank, CNB has already started establishing initial contacts with foreign commercial lenders beginning with Japanese long-term credit banks.

#### Projected Financial Position and Performance

4.57 CNB's financial position is expected to remain satisfactory over the next five years (Annex 16). Based on its operational and funding programs, CNB's total assets are projected to grow at an average annual rate of 27% to W 6,637 billion at the end of 1986. A large part of the asset growth will be supported by deposit growth; however, due to the scheduled increase in CNB's paid-in capital by W 10 billion a year from 1982 and onwards up to W 100 billion, the long-term debt/equity ratio would range from 7.6:1 in 1982 to 9.2:1 in 1986. The long-term debt/equity would remain within the proposed contractual limit of 10:1 (para. 4.42) throughout the projection period.

4.58 Despite the projected substantial expansion of equipment loans and term transformation, CNB's asset structure will remain heavily skewed towards short-term assets reflecting the structure of its resource base. CNB's current ratio will still remain above unity throughout the projection period. This does not necessarily mean that no term-transformation will take place. The projected term-transformation is designed in such a way that a portion of deposits with maturity over one year will be transformed into long-term loans with maturity of up to 8 years to achieve average maturity of equipment loans reaching 2-3 years in 1982 and 1983, 4 years in 1984 and 5 years thereafter. However, CNB's current ratio will fall slightly below 1.1:1, which is the minimum current ratio agreed between CNB

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/1 Including the second ADB loan of \$30 million which became effective in February 1982.



and ADB from 1985 as a result of the projected term-transformation.<sup>/1</sup> As stated in para. 4.53, the level of term transformation for each year will be determined annually. Therefore, adjustments could easily be made to accommodate strict adherence to ADB's current ratio criteria, should ADB continue to impose a specific current ratio on CNB.

4.59 Termination of income tax holidays from 1982 will significantly affect CNB's after-tax profits. While income before provisions and income tax is projected to increase steadily from W 14.3 billion in 1981 to W 44.5 billion in 1986, after-tax income will drop from W 7.1 billion in 1981 to W 4.6 billion in 1982 (because of income tax amounting to over 50% of before-tax profits), but thereafter gradually increase to W 15.2 billion (Annex 17). Return (before tax and provisions) on average total assets is expected to remain above 0.9% of average total assets throughout the projection period. Return (after tax and provisions) on average equity is expected to be 7.8% in 1982 and thereafter to remain above 8%, reaching 12.2% in 1986. Interest coverage ratio would remain above 1.11 times, which is adequate (Annex 18).

## 5. THE PROPOSED BANK LOAN

### Justification and Risks

5.01 The continued support of small-scale industries remains an important element in Korea's industrial development strategy in view of their contribution to regional dispersal of industry, employment creation and growth of manufactured exports, and in light of the need for better linkage and balance between small and large industrial firms. Export-led manufacturing growth, which is the key thrust of the development strategy, calls for the improvement of productivity and efficiency of Korean industry (including SSEs) in the face of increasing competition in the world markets. The greater availability of equipment finance to SSEs is crucial because it is through capital investment that SSEs can modernize their facilities and operations, thereby improving their productivity and competitiveness. The Government is also committed to expanding and strengthening technical and managerial extension services to SSEs for betterment of their skills. The proposed project would, as pointed out in para. 3.07, enhance CNB's role in financing investments which will tend to raise the productivity and efficiency of SSEs.

5.02 The proposed loan of \$30 million, which would cover about one-third of CNB's foreign currency commitments over a two-year period during 1983-84, together with the proposed expansion of CNB's medium- and long-term local currency equipment loan operations (reaching about \$160 million

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<sup>/1</sup> CNB's current ratio is projected to be 1.09:1 in 1985 and 1986.

equivalent in the period 1983-84) will significantly increase the flow of equipment finance suitable to SSEs. The Bank's institution-building role can hardly be overemphasized. For instance, without the Bank's strong support, as evidenced by the proposed loan, for CNB's moving prudently towards term-transformation, CNB would not have seriously considered the possibility of term-transformation (in view of the risks normally associated with term-transformation). The draft "Outline of Development Strategy for 1982-86," which was discussed and agreed upon during negotiations, reflects CNB's serious intention to transform itself into an institution engaging more heavily in term lending to SSEs and provides reasonable basis for the Bank to continue the process of institution building started with Loan No. 1829-KO.

5.03 Since the individual projects to be financed under the proposed loan are not yet identified, an ex-ante quantification of their economic impact is not possible. However, it is expected that most of subprojects to be financed under the loan would be for modernization of small enterprises in the manufacturing, construction, transportation and service subsectors. Experience with the last Bank loan for similar purposes shows that the Bank loan was used to finance a wide range of economically viable projects (para. 4.37). Subprojects to be financed by CNB under the proposed loan are expected to yield similar benefits. Based on the average cost per job of projects recently financed by CNB, the proposed loan would help create approximately 3,000 jobs.

5.04 Risks. CNB's proposed expansion of local currency equipment loans is desirable given the growing needs of SSEs to modernize their facilities and operations. CNB's plan for lengthening maturities of these loans through term-transformation is feasible given the stable nature of its deposits and other factors discussed in para. 4.51. Among a number of specific project objectives noted in para. 3.07, the above proposal and plan are key features of Bank's institution-building objectives under the proposed loan. While the proposed term-transformation is a new experience to CNB and the projected level of local currency equipment loans is large in absolute terms and in comparison with CNB's historical record, the projected term-transformation in itself would neither have an adverse effect on CNB's financial position nor entail any unusual risk, partly because CNB has access to the BOK's "lender-of-last-resort" facility but mainly because the term-transformation will take place gradually and the extent of domestic currency equipment loan portfolio even after term-transformation will remain less than 5% of CNB's total assets (or less than 6% of its total current assets) through 1986. However, CNB is still new to development banking and it has yet to fully develop term lending capabilities at the branch level which makes most of local currency lending decisions. In light of the foregoing, the capacity of CNB to implement its intended term-transformation without jeopardizing the quality of its expanded term loan portfolio will be critical to the success of the project and failure of CNB to develop and

maintain reasonable standards of term lending capabilities will constitute a risk. However, given the CNB's strong commitment to implementing an extensive training program over 1982-83 before accelerating the expansion of long-term lending operations, the good caliber of CNB's management, the safeguards built into the project to monitor the progress to be made by CNB in training of its staff, its operations and portfolio quality, and the scheduled substantial involvement of the Bank in the initial stages of the project, the prospects for successful project implementation are good. On balance, the risks inherent in the project are manageable and well worth taking in view of the potential long-term benefits that are expected to derive from the proposed project.

#### Main Features of the Loan

5.05 Purpose. As with the last Bank loan to CNB, the proposed loan would be used to finance (a) 100% of the foreign exchange cost of directly imported goods and services; and (b) 60% of the cost of machinery and equipment domestically procured or manufactured, representing the estimated foreign exchange component.

5.06 Eligible Enterprises. Under the first Bank loan to CNB, eligible subborrowers are limited to small industrial, mining and transportation firms with no more than 100 employees and construction and service firms with no more than 20 employees, or firms with total assets not exceeding W 500 million. However, the Enforcement Decree of the CNB Act defines SSEs only in terms of number of permanent workers. Therefore, under the proposed loan, eligible subborrowers would be defined only in terms of maximum size of employment noted above./1

5.07 Subloan Ceiling. Given the increasing prices of capital goods and growing demand for imported machinery and equipment by technology-intensive small enterprises, the ceiling on individual subloans would be raised from \$400,000 under the first Bank loan to \$500,000.

5.08 Free limit. In recognition of improving quality of CNB's appraisal work, the free limit would be raised from \$250,000 under the first Bank loan to \$300,000. Under the first Bank loan, about 30% of total loan amount and about 15% of total number of subprojects exceeded the free limit. This is relatively high compared with other DFCs, particularly those in Korea; therefore, the level of the free limit will be reviewed periodically to ensure that the Bank reviews an appropriate (about 15) but not excessive number of subprojects.

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/1 The maximum lending limits in local currency to single borrower, under the Enforcement Decree, are W 50 million for equipment loans, W 40 million for working capital loans and W 30 million for guarantees. These low limits effectively prevent CNB from attracting relatively large SMIs.

5.09 Requirement for Financing Smaller Enterprises. As with the first Bank loan, CNB will be required to allocate at least 50% of the proposed loan to finance SSEs employing no more than 50 workers or with total assets below W 250 million in order to ensure access of the smallest firms to Bank funds.

5.10 Requirement for Geographical Dispersal of Subloans. As with the first Bank loan, CNB will be required to allocate at least 50% of the Bank funds to subprojects outside of the city limits of Seoul.

5.11 Requirement for Economic Rate of Return Calculation. As with the first Bank loan, CNB will be required to calculate the economic rate of return for all subloans above the free limit.

5.12 Debt/Equity Ratio. In order to make both the definition and the level of a long-term debt/equity ratio for CNB consistent with those of other DFCs in Korea, CNB's long-term debt would be redefined under the proposed loan and the existing loan (Loan 1829-KO) as all long-term debt and guarantees (including current maturities of such debt) minus remunerated mutual installment savings (which represent the portion of principal installments collected under the mutual installment savings scheme) and provisions for retirement grants, and a maximum long-term debt/equity ratio of 10:1 is recommended.

5.13 Procurement. CNB will require its subborrowers to follow the appropriate procurement procedures, which will ensure that the goods and services to be financed by subloans be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods, their suitability for the subproject and the availability of maintenance facilities and spare parts thereof, and, in the case of services, of their quality and the competence of the parties rendering them.

5.14 Disbursements. The proposed loan would be fully disbursed in four years after the loan becomes effective (Annex 19). The estimated disbursement schedule of the proposed loan is in line with actual disbursement pattern under the first Bank loan to CNB and broadly consistent with disbursement profiles for past Bank loans to Korean DFCs. The disbursement of the proposed loan is expected to be completed one year earlier than the disbursement profiles for IDF sector in the region as a whole indicate.

5.15 Amortization Schedule. As is usual with Bank loans to DFCs, the proposed loan would have an adjustable composite amortization schedule reflecting the aggregate of the repayment schedules of the individual subloans made by CNB. The proposed loan will be fully repaid within 14 years including a grace period of 3 years. A maximum repayment period of the loan would be one year shorter than the country terms, which is 15 years, in view of two additional years of grace period given for the Korea Technology Development Corporation (KTDC) project. Maximum subloan maturity will be 12 years including a grace period not exceeding 3 years; average maturity and grace period of subloans would be around 8 years and 2 years respectively.

5.16 Front End Fee and Relending Rate. CNB opted for payment of the front-end fee during negotiations. CNB will onlend the proceeds of the proposed loan at an interest rate of 2 percentage points above its own borrowing cost with the full foreign exchange risk to be passed on to the subborrowers. This is in line with the general practice of development finance institutions in Korea of relending the proceeds of foreign exchange borrowings from international sources. Based on the current Bank's lending rate of 11.6% p.a., the nominal onlending rate to subborrowers would be 13.6% p.a. In addition, CNB intends to charge subborrowers a one-time fee of 1.5% of the subloan committed to them and a commitment fee of 3/4 of 1% p.a. on the undisbursed portion of the subloan committed to them. The 2% interest spread is adequate to cover the cost incurred by CNB in processing subloan applications and supervising subprojects.

5.17 Based on the relending rate of 8.25% p.a. charged by the Bank under the first loan to CNB which became effective in August 1980, CNB's subborrowers are charged an interest rate of 10.25% p.a. With the foreign exchange risk assumed by subborrowers, the effective cost of Bank resources (about 21.7% p.a. after taking into account the depreciation of Won against the US dollar during the twelve months ended July 31, 1981) has not been unduly subsidized relative to CNB's domestic currency loans; during the same period, the standard lending rate for domestic currency long-term loans has fluctuated between 19.5% and 24% p.a. While the effective foreign exchange risk under the proposed loan cannot be quantified in advance, it is expected to bring the effective cost of Bank funds to a level which is positive in real terms and is comparable to the domestic currency long-term lending rates of 16.5-18.0% p.a. (para. 2.26).

#### Agreements and Understandings Reached during Negotiations

5.18 During loan negotiations, agreement was reached with the Government to the effect that the Government undertakes to participate in increases in CNB's share capital as needed in the future to enable CNB to maintain the long-term debt/equity ratio within a limit of 10:1 (para. 4.42).

5.19 The following agreements, which were reflected in the loan documents, were reached with CNB on:

- (a) the new definition of long-term debt and the long-term debt/equity limit of 10:1 (para. 4.42);
- (b) the ceiling of US\$500,000 on the size of individual subloans (para. 5.07);

- (c) the free limit of US\$300,000 on subloans (para. 5.08);
- (d) eligible subborrowers would be defined as small industrial firms with no more than 100 employees and construction and service firms with no more than 20 employees (para. 5.06);
- (e) a minimum of 50% of the Bank loan for financing smaller enterprises employing up to 50 workers, or with total assets not exceeding W 250 million (para. 5.09);
- (f) the ceiling of 50% of the Bank loan for financing subprojects within the city limits of Seoul (para. 5.10);
- (g) economic rate of return calculation for all subprojects above the free limit (para. 5.11); and
- (h) the treatment of front-end fee (para. 5.16).

5.20 In addition, the Bank reached understandings with CNB on the following:

- (a) CNB would adopt and implement its Development Strategy for 1982-86 which calls for among others, expanding its term lending activity for SSEs (para. 4.50), lengthening the average maturity of its domestic currency equipment loans through prudent term-transformation (para. 4.51), increasing its paid-in capital (para. 4.42), diversifying its foreign currency resources (para. 4.56), intensifying training of its staff especially branch staff (para. 4.14), and strengthening its research activities particularly subsector/market studies (para. 4.30); and
- (b) CNB would review the average maturity of its domestic currency equipment lending operations for SSEs by the end of each fiscal year starting with the year ending December 31, 1982 and the average maturity of such operations planned for the following fiscal year, and on the basis of such review and consultation with the Bank determine the level of term-transformation for the following year (para. 4.53).

5.21 Recommendation. A Bank loan of \$30 million with a maturity of 14 years, including a grace period of 3 years, is recommended for CNB.

KOREATHE CITIZENS NATIONAL BANKInterest Rate Structure  
(percent per annum)

|                                   | <u>After</u>        |                      |
|-----------------------------------|---------------------|----------------------|
|                                   | <u>Nov. 8, 1980</u> | <u>Jan. 14, 1982</u> |
| <u>COMMERCIAL BANKS</u>           |                     |                      |
| <u>Deposit Rates</u>              |                     |                      |
| Time deposits                     |                     |                      |
| 3 months or over                  | 14.82               | 14.4                 |
| 6 months or over                  | 16.92               | 14.6                 |
| Over 1 year                       | 19.5 (21.6/b)       | 15.0                 |
| Installment savings               |                     |                      |
| 1 year                            | 15.1                | 13.8                 |
| 2 years                           | 17.1                | 14.4                 |
| 3 years                           | 19.5 (22.5/b)       | 15.0                 |
| Property formation savings /a     |                     |                      |
| 1 year                            | 25.6 (15.4)         | No change            |
| 2 years                           | 28.4 (16.9)         | No change            |
| 3 years                           | 30.9 (18.6)         | No change            |
| 5 years                           | 33.6 (20.6)         | No change            |
| Demand deposits                   |                     |                      |
| Passbook deposits                 | 1.8                 | 1.8                  |
| Household checking deposits /c    | 14.4                | 14.4                 |
| <u>Lending Rates</u>              |                     |                      |
| Operating funds                   |                     |                      |
| Ordinary loans                    |                     |                      |
| Prime enterprises                 | 19.5                | 15.5                 |
| Other enterprises                 | 20.0                | 16.0                 |
| Commercial notes                  |                     |                      |
| Prime enterprises                 | 19.5                | 15.5                 |
| Other enterprises                 | 20.0                | 16.0                 |
| Overdraft /d                      |                     |                      |
| Prime enterprises                 | 20.5                | 15.5                 |
| Other enterprises                 | 21.0                | 16.0                 |
| Term loans /d                     |                     |                      |
| Up to 3 years                     | 19.5-20.0           | 15.5-16.0            |
| 3 to 8 years                      | 20.5-21.0           | 16.5-17.0            |
| Over 8 years                      | 21.5-22.0           | 17.5-18.0            |
| Export finance                    | 12.0                | 12.0                 |
| National Investment Fund          | 20.0                | 16.5-17.5            |
| Machinery industry loans          | 15.0                | 15.0                 |
| Loans with installment collateral | 17.5-18.0           | 15.5-16.0            |
| Loans on installment savings      | 17.5-18.0           | 15.5-16.0            |
| Loans overdue                     | 27.0                | 24.0                 |

/a Figures in parentheses show the base rates payable by the financial institutions; the remainder is subsidized by Government and Employer.

/b Special interest rates on household's deposits.

/c Effective from July 1, 1981.

/d These rates are 0.5% p.a. higher for the Pusan, Daegu, Kyonggi and Kyongnam banks, and 1.0% higher for the other local banks.

|  | After        |               |
|--|--------------|---------------|
|  | Nov. 8, 1980 | Jan. 14, 1982 |
| <u>KOREA DEVELOPMENT BANK</u>              |              |               |
| <u>Equipment Loans /a</u>                  |              |               |
| Government funds                           | 18.5         | 16.5          |
| Machine industry promotion funds           | 18.0-20.0    | 15.0-17.0     |
| Special equipment funds                    | 18.0-19.0    | 15.0-16.0     |
| Internal funds (priority industries)       | 18.5-22.0    | 15.5-17.5     |
| Internal funds (nonpriority industries)    | 18.5-22.0    | 16.0-18.0     |
| Foreign commercial funds /b                | 11.2-12.7    | 15.4-15.9     |
| <u>Working Capital Loans</u>               |              |               |
| Government funds                           | 18.5         | 16.5          |
| Machine industry promotion funds           | 18.0         | 15.0          |
| Special equipment funds                    | 18.0         | 15.0          |
| Internal funds (prime clients)             | 19.5         | 15.5          |
| Internal funds (other clients)             | 20.0         | 16.0          |
| Foreign commercial funds /b                | 12.7         | 15.9          |
| <u>National Investment Fund /a,/c</u>      | 18.5-19.5    | 14.0-17.5     |
| <u>Industrial Rationalization Funds /a</u> |              |               |
| Direct loans                               | 18.5-19.5    | 15.5-16.5     |
| Through banking institutions               | 17.0-18.0    | 14.0-15.0     |
| <u>Government Special Fund Loans /a,/d</u> | 13.0-19.5    | 7.5-15.5      |
| <u>Foreign Currency Loans</u>              |              |               |
| Foreign commercial funds /e                | LIBOR + 2.4  | LIBOR + 1.7   |
| USAID (3rd loan)                           | 10.0         | 10.0          |
| KfW (4th loan)                             | 9.0          | 9.0           |
| ADB (5th loan)                             | 9.65         | 9.65          |
| IBRD (3rd loan)                            | 9.5          | 9.5           |
| IBRD (4th loan)                            | -            | 11.25         |
| <u>Penalty Rate on Overdue Loans</u>       | 27.0         | 24.0          |

/a In domestic currency.

/b Exchange risk passed on to borrowers.

/c Capital and working capital loans.

/d For power development, shipbuilding, coal mining, public utilities, maritime transportation, railways and roads.

/e Export industries only.



|                                       | After         |               |
|---------------------------------------|---------------|---------------|
|                                       | Nov. 8, 1980  | Jan. 14, 1982 |
| <u>SMALL AND MEDIUM INDUSTRY BANK</u> |               |               |
| <u>Foreign Currency Loans</u>         |               |               |
| IBRD Loan 1175-KO                     | 10.5          | 10.5          |
| IBRD Loan 1507-KO                     | 9.9           | 9.9           |
| IBRD Loan 1749-KO                     | 9.9           | 9.9           |
| ADB fourth loan                       | 10.9          | 10.9          |
| Korea foreign exchange /a             |               |               |
| 3 years or less                       | LIBOR + 1.0   | No change     |
| Over 3 years                          | LIBOR + 1.125 | No change     |
| Over 7 years                          | LIBOR + 1.25  | No change     |
| <u>Domestic Currency Loans</u>        |               |               |
| Same as commercial banks, KDB         |               |               |
| <u>CITIZEN NATIONAL BANK</u>          |               |               |
| <u>Deposit Rates</u>                  |               |               |
| Same as commercial banks              |               |               |
| <u>Mutual Installment Receipts</u>    |               |               |
| 15 months                             | 15.1          | 13.8          |
| 25 months                             | 17.1          | 14.4          |
| 35 months                             | 19.5          | 15.0          |
| 50 months                             | 21.0          | 15.9          |
| 60 months                             | 22.0          | 16.5          |
| <u>Lending Rates</u>                  |               |               |
| Working capital loans                 |               |               |
| On remuneration basis                 | 18.0-19.08    | 15.72-16.8    |
| On bills                              | 19.5-20.0     | 15.5-16.0     |
| Overdrafts                            | 20.5-21.0     | 15.5-16.0     |
| Discount on bills                     | 19.5-20.0     | 15.5-16.0     |
| On installment savings                | 17.5-18.0     | 15.5-16.0     |
| Populace (consumer loans)             |               |               |
| On remuneration basis                 | 18.0-19.08    | 15.72-16.8    |
| On bills                              | 20.0          | 16.0          |
| With saving as collateral             | 18.0          | 16.0          |
| On installment savings                | 18.0          | 16.0          |
| Facility (equipment) loans            |               |               |
| On mutual installment basis           | 18.0-19.08    | 15.72-16.8    |
| On bills                              | 19.5-20.0     | 15.5-16.0     |

/a For ¥ loans, add 1%.

KOREA

THE CITIZENS NATIONAL BANK

Major Shareholders and their Shareholding as of September 30, 1981

| Shareholder                 | No. of shares     | Amount (W mln)  | %            |
|-----------------------------|-------------------|-----------------|--------------|
| Government                  | 39,352,889        | 19,676.5        | 65.6         |
| <u>Commercial Banks</u>     |                   |                 |              |
| Hanil Bank                  | 4,769,297         | 2,384.7         | 7.9          |
| Korea First Bank            | 4,765,493         | 2,382.7         | 7.9          |
| Cho-Heung Bank              | 4,032,017         | 2,016.0         | 6.7          |
| Commercial Bank of Korea    | 4,032,017         | 2,016.0         | 6.7          |
| Bank of Seoul and Trust Co. | 2,940,786         | 1,470.3         | 4.9          |
| Others                      | 107,501           | 538.0           | 0.3          |
| <u>Total</u>                | <u>60,000,000</u> | <u>30,000.0</u> | <u>100.0</u> |

Source: CNB.

AEP Projects Department  
December 8, 1981

KOREA

THE CITIZENS NATIONAL BANK

Policy Statement

(Adopted by the Board of Directors  
on August 10, 1979)

Objective

This policy statement is aimed at prescribing CNB's major policy measures related to rendering financial assistance for the promotion of small-scale industry.

Scope of CNB's Operations

CNB shall contribute to the economic development of Korea by promoting, inter alia, the progress and advancement in small-scale industry in conformity with the purposes as stipulated in the CNB Act, its Enforcement Decree and the Government's policies. In order to achieve this objective CNB will expedite the advancement of small-scale enterprises (as defined in the Enforcement Decree of CNB Act and Loan Agreements of the relevant foreign currency borrowings) as follows:

- (a) providing various types of financial assistance such as the lending of mutual installment remunerations (particular type of loan), medium- and long-term facility loans, short-term working capital loans, guarantees, etc; and
- (b) engaging in the activities for the progress of small-scale enterprises such as identification and development of new projects, etc.

Development Policies

CNB will extend its financial assistance to the small-scale enterprises in order to supplement their managerial and financial weakness. Especially preference will be given to the following small-scale enterprises which will effectively contribute to broadening the base of the national economy:

- (a) exporting enterprises designated by the Government;
- (b) import-substitution industries and industries producing raw materials;
- (c) specialized enterprises or industries ancillary to large firms and machinery industries;

- (d) enterprises with potential for export- and import-substitution;
- (e) industries which will develop new products;
- (f) indigenous industries and labor-intensive industries;
- (g) industries effectively contributing to the enhancement of GNP and employment; and
- (h) industries contributing to industrial rationalization and technical development.

#### General Operating Principles

(a) CNB will carry out its operations in accordance with sound management and business principles and practices. It will expand its operations in the field of small-scale industries.

(b) CNB will finance projects viable from the economic, technical and financial point of view and it will give special attention to the quality of management and the market prospects of projects.

(c) CNB will give assistance to applicants in the course of application for lending and feasibility study.

(d) CNB will determine the repayment period of loans, including grace period depending on nature, individual circumstance of the project and repayment ability of the borrower.

(e) CNB will appropriately supervise the use of its funds, the progress of the project financed and the performance of the enterprise so as to ensure that remedial action is promptly taken when problems arise.

(f) In the case of foreign currency loans, CNB will protect itself against any loss resulting from changes in the rate of exchange between Won and foreign currencies in which CNB's outstanding money obligations will have to be met.

(g) CNB will exert its effort for diversified loan portfolio by industrial sector and geographical allocation, in particular in the execution process of local currency lending except for "Mutual Installment Remuneration." In case of foreign capital subloan, CNB will observe the provisions of the related Loan Agreements.

#### Financial Guidelines

CNB will endeavor to match maturities of its long-term and short-term loans portfolios with maturities of its resources including deposits.

CNB will not seek to control any of the enterprises in which it has financed nor will it participate in the management of such enterprises except for the purpose of safeguarding its principal and interest.

In accordance with sound banking practices, CNB will secure appropriate collateral for its loans and guarantees. However, in the case of development project loans, CNB will be guided by considerations of technical feasibility, financial viability and economic justification of the projects and enterprises so assisted.

CNB will require eligible borrowers to finance a reasonable portion of the total project cost from their own resources to ensure that they have a reasonable stake in the projects financed by CNB.

Borrowers must not be in arrears in the repayment of either principal and interest on any existing loan.

#### Limits on Assistance

CNB's total commitments in any one single enterprise in whatever form, i.e., loans, guarantees or a combination thereof, will not exceed 25% of the sum of its unimpaired paid-in capital, reserves and surplus.

CNB's limit on local currency loans and guarantees to any single small-scale industry is the same as stipulated in subparagraphs 1,3 and 3-2, paragraph 1, Article 20 of the Enforcement Decree of the CNB Act. However, with respect to the lending of foreign capital for small-scale industry, CNB is not subject to the above restrictions, but bound by the approval from the Minister of Finance and subject to provisions of Loan Agreements of the relevant foreign currency borrowings.

#### Management and Organization

CNB will cooperate with its clients in the establishment and implementation of the planned project and will maintain effective organization in order to enhance management capability and intensify training for employees. CNB will also recruit sufficient number of personnel specialized in the field of financial and economic analysis, technique, accounting, law and so on.

#### Accounting

CNB will maintain adequate accounting records to reflect its business operations and affairs in accordance with generally accepted accounting principles and standards.

CNB will engage a qualified and independent public accountant to audit its books and financial statements every year.

Provisions and Reserves

CNB will annually make appropriate allocations to the account of provision for doubtful loans for the protection against bad debts.

CNB will allocate at least 25% of the profits to a reserve fund every fiscal year until the reserve fund reaches the amount of the paid-in capital.

KOREA

THE CITIZENS NATIONAL BANK

Development Strategy for 1980/81

Outline

1. This development strategy is aimed at prescribing major development policy measures of The Citizens National Bank (hereinafter referred to as the CNB) with emphasis given to acceleration of development activities of the CNB for the promotion of small-scale industry.

2. Especially in parallel with the projected expansion of its financing operations in the two-year period 1980/81, CNB shall further expand, apart from its normal financing activity, its developmental and promotional activities particularly in the specific areas outlined below.

Priority Area of Financing

3. CNB shall contribute to the national economic development by expediting the advancement of small-scale enterprise.

4. Thus, main emphasis shall be given to the financial assistance to small-scale enterprises in order to supplement their managerial and financial resources which often lack access to mot banking institutions.

5. Especially, the preference in selection of financing beneficiary will be given to the following small-scale enterprises which will effectively contribute to broadening the base of national economy.

- (a) exporting enterprises designated by the Government;
- (b) import-substitution industries and industries producing raw materials;
- (c) specialized enterprises or industries ancillary to large firms and machinery industries;
- (d) enterprises with potential for export and import substitution;
- (e) industries which will develop new products;
- (f) indigenous industries and labor-intensive industries;

- (g) industries effectively contributing to the enhancement of GNP and employment; and
- (h) industries contributing to industrial rationalization and technical development.

#### Project Promotion and Resource Allocation

6. CNB shall make special efforts to assist an increasing number of small-scale enterprises and labor-intensive projects in conformity with the purposes as stipulated in the CNB Act, its Enforcement Decree and the Government's policies.

7. In line with the Government's policy toward geographical distribution of small-scale industry to provincial areas, CNB shall make efforts to increase the proportion of its financing to SSI located in provincial areas by taking advantage of its nationwide branch network.

#### Resource Mobilization

8. CNB shall endeavor to increase the mobilization of household savings in an effort to augment its domestic currency resources and to introduce sufficient foreign currency resources from international financial institutions. CNB shall also make continued efforts to raise long-term local currency resources from relevant institutions concerned.

#### Research

9. With a view to providing more diversified financial services, and expanding its operational activities in parallel with the rapidly developing economic environment as well as securing stable basis for mobilization of adequate domestic currency resources, CNB shall strengthen its research capability and activities including "Small Manufacturing Industry Survey," with particular emphasis given on sector studies and market studies for small-scale industry.

#### Organization

10. In connection with diversification and expansion of its operational activities, CNB shall continue, as a matter of high priority, to enhance professional abilities of its existing staff through adequate training courses provided by domestic and foreign institutions with due consideration given to the fields of financial and economic analysis, appraisal technique, accounting, law, and so on. CNB shall also adopt its organization as appropriate to effectively carry out its expanding activities.



KOREA

THE CITIZENS NATIONAL BANK

Outline of Development Strategy for 1982-86 /1

Introduction

This statement is to clarify CNB's distinct role in the community of Korean financial institutions and how that role should evolve through 1986 and outlines operational objectives consistent with its underlying developmental role, its plan for term transformation and for strengthening its equity base, its intention to tap foreign commercial funds, and its program for building up its institutional (particularly branches) capability for handling increased term lending operations.

CNB's Role

CNB is a specialized bank operating for and in the household as well as small-scale business sectors. For raising its domestic currency resources through mobilization of deposits from the general public, CNB has been competing with commercial banks, regional city banks, SMIB and mutual finance companies. CNB offers all the commercial banking services for household and small-scale business sectors; in this respect, CNB is a commercial bank with the developmental role of promoting and serving small-scale industry. During the five-year period (1982-1986), CNB plans to play a more meaningful role as an allocator of resources consistent with its underlying developmental role.

Operational Objectives

In an attempt to play a more meaningful role as an allocator of resources, CNB shall further expand, apart from its normal financing activity, its term lending activity particularly for the advancement of small-scale enterprises. To this end, CNB shall endeavor to extend the average maturity of its domestic currency equipment loans to about 5 years by 1986. This would require CNB to undertake some degree of prudent term transformation while maintaining its financial viability. Also, this would require CNB to upgrade its term lending capability especially at the branch level. CNB, recognizing this need, shall continue to exert its efforts for training its staff and streamlining its procedures.

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/1 As adopted by the CNB Board of Directors on April 10, 1982.

CNB shall make special efforts to assist an increasing number of small-scale enterprises and relatively labor-intensive projects in conformity with the purposes as stipulated in the CNB Act, its Enforcement Decree and the Government's policies. In addition, CNB will continue to provide finance for modernization of small-scale enterprises in order to enhance their competitiveness in export as well as in domestic markets.

In line with the Government's policy toward geographical distribution of small-scale industry to provincial areas, CNB shall make continuing efforts to increase the proportion of its financing to SSI located in provincial areas by taking advantage of its nationwide branch network.

CNB shall actively assist the small-scale enterprises in the machinery subsector, to the modernization of which the Government is giving a high priority.

CNB shall, where necessary, actively encourage and promote subcontracting arrangements with a view to contributing to deepening the industrial structure in Korea.

In utilizing its surplus funds, CNB shall give due considerations to the marketability and expected rate of return on its securities holdings.

#### Resource Mobilization

CNB shall make continuing efforts for the mobilization of household savings and for making use of long-term local currency resources available from relevant institutions concerned. In addition, CNB shall endeavor to increase its paid-in capital as scheduled. With a view to supplementing foreign currency resources available from international finance institutions and diversifying its long-term foreign currency resources, CNB shall make best efforts to tap commercial funds at appropriate terms suitable for relending to small-scale enterprise during 1982-86.

#### Research

CNB shall continue to strengthen its research capability and activities, with particular emphasis given on subsector studies and market studies for small-scale industry as a means of improving the data base required for sound project evaluation and identification of potential clients.

#### Organization

In connection with planned expansion of its term lending activities, CNB shall continue, as a matter of high priority, to enhance professional abilities of its staff through the provision of adequate training opportunities with due emphasis on appraisal and supervision techniques. CNB shall also streamline its organization, procedures and staffing pattern as appropriate to effectively carry out its expanding activities.

KOREA

THE CITIZENS NATIONAL BANK

Composition of Board of Directors, as of September 30, 1981

| Name              | Position         | Date of appointment | Date of expiry | Background  |
|-------------------|------------------|---------------------|----------------|---|
| Song, Byoung Soon | President        | Jul 30, 1980        | Jul 29, 1983   | Career spent mainly in MOF and its affiliated office. Appointed Chairman of the Board of Directors of KCGF. Appointed President of CNB July 1980. |
| Kim, Sang Chan    | Deputy President | Aug 01, 1980        | Jul 31, 1983   | Career spent mainly in CNB. Joined CNB in 1963. Appointed Director June 1975. Deputy President since August 1980.                                 |
| Yoo, In Ho        | Auditor          | Aug 20, 1980        | Aug 19, 1982   | Career spent mainly in BOK from 1946 to 1975. Appointed Director of CNB in February 1976. Auditor since August 1980.                              |
| Rha, Sung Woong   | Director         | Apr 07, 1980        | Apr 06, 1983   | Career spent mainly in CNB. Joined CNB in 1963. Director since April 1977.  |
| Chang, Yeung Keun | Director         | May 07, 1979        | May 06, 1982   | Served in MOF. Appointed Auditor of CNB September 1977. Director since May 1979.  |
| Kim, Nam Ho       | Director         | Aug 20, 1980        | Aug 19, 1983   | Career spent mainly in CNB. Joined CNB in 1963. Director since August 1980.   |
| Park, Jung Kyu    | Director         | Aug 20, 1980        | Aug 19, 1983   | Served in the Army. Joined CNB in 1970. Director since August 1980.   |
| Choi, Myoung Kyu  | Director         | Aug 20, 1980        | Aug 19, 1983   | Career spent mainly in CNB. Joined CNB in 1963. Director since August 1980.   |

Source: CNB.

AEP Projects Department  
December 8, 1981

## KOREA

## THE CITIZENS NATIONAL BANK

Summary of Loan Operations, 1977 - June 30, 1981  
(Won million)

|   | 1977           |                | 1978           |                | 1979           |                | 1980           |                | 1981 (June 30) |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | No.            | Amount         | No.            | Amount         | No.            | Amount         | No.            | Amount         | No.            | Amount         |
| <u>Approvals /a</u>                       |                |                |                |                |                |                |                |                |                |                |
| Working capital loans                     | 46,412         | 169,163        | 34,377         | 152,463        | 28,805         | 180,269        | 29,104         | 282,132        | 15,170         | 158,724        |
| (Net approvals) /b                        | -              | (31,086)       | -              | (30,795)       | -              | (78,225)       | -              | (131,632)      | -              | (47,595)       |
| Equipment loans                           |                |                |                |                |                |                |                |                |                |                |
| Domestic currency                         | 4,204          | 17,332         | 5,257          | 17,093         | 5,021          | 19,903         | 3,987          | 17,384         | 1,913          | 10,044         |
| Foreign currency                          | -              | -              | -              | -              | 10             | 850            | 52             | 4,554          | 67             | 7,645          |
| <u>Total Business Loans</u>               | <u>50,616</u>  | <u>186,495</u> | <u>39,634</u>  | <u>169,556</u> | <u>33,836</u>  | <u>201,022</u> | <u>33,143</u>  | <u>304,070</u> | <u>17,150</u>  | <u>176,413</u> |
| (Net approvals) /b                        | -              | (48,418)       | -              | (47,888)       | -              | (98,978)       | -              | (153,570)      | -              | (65,284)       |
| General populace loans                    | 153,288        | 108,488        | 189,052        | 170,984        | 182,135        | 200,325        | 213,348        | 306,144        | 245,005        | 224,194        |
| (Net approvals) /b                        | -              | (42,584)       | -              | (65,793)       | -              | (50,114)       | -              | (138,988)      | -              | (103,997)      |
| <u>Total Approvals</u>                    | <u>203,904</u> | <u>294,983</u> | <u>228,686</u> | <u>340,540</u> | <u>215,971</u> | <u>401,347</u> | <u>246,491</u> | <u>610,214</u> | <u>262,155</u> | <u>400,607</u> |
| (Net approvals) /b                        | -              | (91,722)       | -              | (113,681)      | -              | (149,092)      | -              | (292,558)      | -              | (169,281)      |
| <u>Commitments /a</u>                     |                |                |                |                |                |                |                |                |                |                |
| Working capital loans                     | 46,412         | 169,163        | 34,377         | 152,463        | 28,805         | 180,269        | 29,104         | 282,132        | 15,170         | 158,724        |
| Equipment loans                           |                |                |                |                |                |                |                |                |                |                |
| Domestic currency                         | 4,204          | 17,332         | 5,257          | 17,093         | 5,021          | 19,903         | 3,987          | 17,384         | 1,913          | 10,044         |
| Foreign currency                          | -              | -              | -              | -              | 4              | 486            | 45             | 3,925          | 66             | 6,867          |
| <u>Total Business Loans</u>               | <u>50,616</u>  | <u>186,495</u> | <u>39,634</u>  | <u>169,556</u> | <u>33,830</u>  | <u>200,658</u> | <u>33,136</u>  | <u>303,441</u> | <u>17,149</u>  | <u>175,635</u> |
| General populace loans                    | 153,288        | 108,488        | 189,052        | 170,984        | 182,135        | 200,325        | 213,348        | 306,144        | 245,005        | 224,194        |
| <u>Total Commitments</u>                  | <u>203,904</u> | <u>294,983</u> | <u>228,686</u> | <u>340,540</u> | <u>215,965</u> | <u>400,983</u> | <u>246,484</u> | <u>609,585</u> | <u>262,154</u> | <u>399,829</u> |
| <u>Disbursements /a</u>                   |                |                |                |                |                |                |                |                |                |                |
| Working capital loans                     | 46,412         | 169,163        | 34,377         | 152,463        | 28,805         | 180,269        | 29,104         | 282,132        | 15,170         | 158,724        |
| Equipment loans                           |                |                |                |                |                |                |                |                |                |                |
| Domestic currency                         | 4,204          | 17,332         | 5,257          | 17,093         | 5,021          | 19,903         | 3,987          | 17,384         | 1,913          | 10,044         |
| Foreign currency                          | -              | -              | -              | -              | -              | -              | 22             | 1,726          | 43             | 4,298          |
| Add: Fluctuations due to foreign exchange | -              | -              | -              | -              | -              | -              | -              | 82             | -              | (69)           |
| <u>Total Business Loans</u>               | <u>50,616</u>  | <u>186,495</u> | <u>39,634</u>  | <u>169,556</u> | <u>33,826</u>  | <u>200,172</u> | <u>33,113</u>  | <u>301,324</u> | <u>17,126</u>  | <u>172,947</u> |
| General populace loans                    | 153,288        | 108,488        | 189,052        | 170,984        | 182,135        | 200,325        | 213,348        | 306,144        | 245,005        | 224,194        |
| <u>Total Disbursements</u>                | <u>203,904</u> | <u>294,983</u> | <u>228,686</u> | <u>340,540</u> | <u>215,961</u> | <u>400,497</u> | <u>246,461</u> | <u>607,468</u> | <u>262,131</u> | <u>397,191</u> |
| <u>Repayments</u>                         |                |                |                |                |                |                |                |                |                |                |
| Working capital loans                     | 51,116         | 138,077        | 51,947         | 121,668        | 34,689         | 102,044        | 28,724         | 150,500        | 15,585         | 111,129        |
| Equipment loans                           |                |                |                |                |                |                |                |                |                |                |
| Domestic currency                         | 6,359          | 10,236         | 4,797          | 13,546         | 6,449          | 14,979         | 4,400          | 18,106         | 1,677          | 8,744          |
| Foreign currency                          | -              | -              | -              | -              | -              | -              | -              | -              | -              | 17             |
| <u>Total Business Loans</u>               | <u>57,475</u>  | <u>148,313</u> | <u>56,744</u>  | <u>135,214</u> | <u>41,138</u>  | <u>117,023</u> | <u>33,124</u>  | <u>168,606</u> | <u>17,262</u>  | <u>119,890</u> |
| General populace loans                    | 94,065         | 65,904         | 143,548        | 105,191        | 182,608        | 150,211        | 181,512        | 167,156        | 123,183        | 120,197        |
| <u>Total Repayments</u>                   | <u>151,540</u> | <u>214,217</u> | <u>200,292</u> | <u>240,405</u> | <u>223,746</u> | <u>267,234</u> | <u>214,636</u> | <u>335,762</u> | <u>140,445</u> | <u>240,087</u> |
| <u>Outstanding</u>                        |                |                |                |                |                |                |                |                |                |                |
| Working capital loans                     | 72,669         | 174,634        | 55,099         | 205,429        | 49,215         | 283,654        | 49,595         | 415,286        | 49,180         | 462,881        |
| Equipment loans                           |                |                |                |                |                |                |                |                |                |                |
| Domestic currency                         | 8,146          | 28,738         | 8,606          | 32,285         | 7,178          | 37,209         | 6,765          | 36,487         | 7,001          | 37,787         |
| Foreign currency                          | -              | -              | -              | -              | -              | -              | 22             | 1,726          | 65             | 6,007          |
| Add: Fluctuations due to foreign exchange | -              | -              | -              | -              | -              | -              | -              | 82             | -              | 13             |
| <u>Total Business Loans</u>               | <u>80,815</u>  | <u>203,372</u> | <u>63,705</u>  | <u>237,714</u> | <u>56,393</u>  | <u>320,863</u> | <u>56,382</u>  | <u>453,581</u> | <u>56,246</u>  | <u>506,688</u> |
| General populace loans                    | 186,600        | 130,468        | 232,104        | 196,261        | 231,631        | 246,375        | 263,467        | 385,363        | 385,289        | 489,360        |
| <u>Total Outstanding</u>                  | <u>267,415</u> | <u>333,840</u> | <u>295,809</u> | <u>433,975</u> | <u>288,024</u> | <u>567,238</u> | <u>319,849</u> | <u>838,944</u> | <u>441,535</u> | <u>996,048</u> |

/a Given the nature of domestic currency operations, approvals are simultaneous with commitments and disbursements.

/b Disbursements less Repayments.

KOREA  
THE CITIZENS NATIONAL BANK

Characteristics of Equipment Loans Approved, 1977 - June 30, 1981  
(Won million)

| Nature of Project /a  | 1977  |        |       | 1978  |        |       | 1979              |        |       |                  |        |       | 1980              |        |       |                  |        |       | 1981 (June 30)    |        |       |                  |        |       |
|-----------------------|-------|--------|-------|-------|--------|-------|-------------------|--------|-------|------------------|--------|-------|-------------------|--------|-------|------------------|--------|-------|-------------------|--------|-------|------------------|--------|-------|
|                       |       |        |       |       |        |       | Domestic currency |        |       | Foreign currency |        |       | Domestic currency |        |       | Foreign currency |        |       | Domestic currency |        |       | Foreign currency |        |       |
|                       | No.   | Amount | %     | No.   | Amount | %     | No.               | Amount | %     | No.              | Amount | %     | No.               | Amount | %     | No.              | Amount | %     | No.               | Amount | %     | No.              | Amount | %     |
| New                   |       |        |       |       |        |       |                   |        |       | -                | -      | -     |                   |        |       | 7                | 813    | 17.9  |                   |        |       | 9                | 615    | 8.0   |
| Expansion             |       |        |       |       |        |       |                   |        |       | 9                | 719    | 84.6  |                   |        |       | 36               | 2,923  | 64.1  |                   |        |       | 52               | 6,423  | 84.0  |
| BMR /b                |       |        |       |       |        |       |                   |        |       | 1                | 131    | 15.4  |                   |        |       | 9                | 818    | 18.0  |                   |        |       | 6                | 607    | 8.0   |
| Total                 |       |        |       |       |        |       |                   |        |       | 10               | 850    | 100.0 |                   |        |       | 52               | 4,554  | 100.0 |                   |        |       | 67               | 7,645  | 100.0 |
| Total Assets /a       |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Up to W 50 million    |       |        |       |       |        |       |                   |        |       | -                | -      | -     |                   |        |       | 6                | 359    | 7.9   |                   |        |       | 19               | 1,761  | 23.0  |
| W 50 - 100 million    |       |        |       |       |        |       |                   |        |       | 3                | 225    | 26.5  |                   |        |       | 11               | 909    | 20.0  |                   |        |       | 12               | 1,530  | 20.0  |
| W 100 - 250 million   |       |        |       |       |        |       |                   |        |       | 7                | 625    | 73.5  |                   |        |       | 19               | 1,164  | 25.5  |                   |        |       | 20               | 2,201  | 28.8  |
| W 250 - 500 million   |       |        |       |       |        |       |                   |        |       | -                | -      | -     |                   |        |       | 7                | 899    | 19.7  |                   |        |       | 13               | 1,678  | 22.0  |
| Over W 500 million    |       |        |       |       |        |       |                   |        |       | -                | -      | -     |                   |        |       | 9                | 1,223  | 26.9  |                   |        |       | 3                | 475    | 6.2   |
| Total                 |       |        |       |       |        |       |                   |        |       | 10               | 850    | 100.0 |                   |        |       | 52               | 4,554  | 100.0 |                   |        |       | 67               | 7,645  | 100.0 |
| Number of Workers     |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| 5 to 20 workers       | 3,161 | 12,132 | 80.0  | 3,037 | 12,115 | 70.9  | 3,024             | 11,573 | 58.1  | 2                | 95     | 11.2  | 1,935             | 8,740  | 50.3  | 21               | 1,786  | 39.2  | 1,263             | 5,173  | 51.5  | 46               | 4,973  | 65.1  |
| 20 to 50 workers      | 494   | 3,334  | 9.2   | 1,197 | 2,094  | 12.2  | 1,377             | 5,838  | 29.3  | 6                | 619    | 72.8  | 1,585             | 6,292  | 36.2  | 22               | 1,625  | 35.7  | 502               | 3,596  | 35.8  | 16               | 1,852  | 24.2  |
| 50 to 100 workers     | 423   | 1,029  | 5.9   | 764   | 1,717  | 10.0  | 518               | 1,947  | 9.8   | 2                | 136    | 16.0  | 432               | 2,027  | 11.7  | 9                | 1,143  | 25.1  | 138               | 1,205  | 12.0  | 5                | 820    | 10.7  |
| Subtotal              | 4,078 | 16,495 | 95.1  | 4,998 | 15,926 | 93.1  | 4,919             | 19,358 | 97.2  | 10               | 850    | 100.0 | 3,952             | 17,059 | 98.2  | 52               | 4,554  | 100.0 | 1,903             | 9,974  | 99.8  | 67               | 7,645  | 100.0 |
| More than 100 workers | 126   | 837    | 4.9   | 259   | 1,167  | 6.9   | 102               | 545    | 2.8   | -                | -      | -     | 35                | 325    | 1.8   | -                | -      | -     | 10                | 70     | 0.7   | -                | -      | -     |
| Total                 | 4,204 | 17,332 | 100.0 | 5,257 | 17,093 | 100.0 | 5,021             | 19,903 | 100.0 | 10               | 850    | 100.0 | 3,987             | 17,384 | 100.0 | 52               | 4,554  | 100.0 | 1,913             | 10,044 | 100.0 | 67               | 7,645  | 100.0 |
| Size of Loans         |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Up to W 5 million     | 3,637 | 11,460 | 66.1  | 4,176 | 6,602  | 38.6  | 3,946             | 9,073  | 45.6  | -                | -      | -     | 2,871             | 5,868  | 33.8  | -                | -      | -     | 1,389             | 2,923  | 29.1  | -                | -      | -     |
| W 5 - 10 million      | 420   | 2,940  | 17.0  | 744   | 4,672  | 27.3  | 741               | 5,105  | 25.6  | -                | -      | -     | 595               | 3,586  | 20.6  | -                | -      | -     | 251               | 2,139  | 21.3  | -                | -      | -     |
| W 10 - 30 million     | 147   | 2,932  | 16.9  | 337   | 5,819  | 34.1  | 334               | 5,725  | 28.8  | -                | -      | -     | 517               | 7,755  | 44.6  | 5                | 132    | 2.9   | 270               | 4,852  | 48.3  | 4                | 104    | 1.4   |
| W 30 - 50 million     | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 3                | 112    | 13.2  | 4                 | 175    | 1.0   | 13               | 472    | 10.4  | 3                 | 130    | 1.3   | 12               | 500    | 6.5   |
| W 50 - 100 million    | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 3                | 211    | 24.8  | -                 | -      | -     | 10               | 704    | 15.4  | -                 | -      | -     | 16               | 1,135  | 14.9  |
| W 100 - 200 million   | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 4                | 527    | 62.0  | -                 | -      | -     | 23               | 2,993  | 65.7  | -                 | -      | -     | 30               | 4,674  | 61.1  |
| Over 200 million      | -     | -      | -     | -     | -      | -     | -                 | -      | -     | -                | -      | -     | -                 | -      | -     | 1                | 253    | 5.6   | -                 | -      | -     | 5                | 1,232  | 16.1  |
| Total                 | 4,204 | 17,332 | 100.0 | 5,257 | 17,093 | 100.0 | 5,021             | 19,903 | 100.0 | 10               | 850    | 100.0 | 3,987             | 17,384 | 100.0 | 52               | 4,554  | 100.0 | 1,913             | 10,044 | 100.0 | 67               | 7,645  | 100.0 |
| Duration of Loans     |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Up to 1 year          | 43    | 516    | 3.0   | 39    | 407    | 2.4   | 5                 | 62     | 0.3   | -                | -      | -     | -                 | -      | -     | -                | -      | -     | -                 | -      | -     | -                | -      | -     |
| 1 to 3 years          | 2,312 | 9,520  | 54.9  | 2,657 | 10,207 | 59.7  | 3,351             | 14,220 | 71.5  | -                | -      | -     | 2,791             | 9,952  | 57.2  | -                | -      | -     | 1,173             | 5,715  | 56.9  | -                | -      | -     |
| 3 to 5 years          | 1,849 | 7,296  | 42.1  | 2,561 | 6,479  | 37.9  | 1,665             | 5,621  | 28.2  | -                | -      | -     | 1,196             | 7,432  | 42.8  | 6                | 745    | 16.4  | 740               | 4,329  | 43.1  | 19               | 2,406  | 31.5  |
| 5 to 7 years          | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 1                | 30     | 3.5   | -                 | -      | -     | 9                | 615    | 13.5  | -                 | -      | -     | 13               | 1,470  | 19.2  |
| 7 to 10 years         | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 7                | 684    | 80.5  | -                 | -      | -     | 34               | 2,769  | 60.8  | -                 | -      | -     | 16               | 1,220  | 16.0  |
| Over 10 years         | -     | -      | -     | -     | -      | -     | -                 | -      | -     | 2                | 136    | 16.0  | -                 | -      | -     | 3                | 425    | 9.3   | -                 | -      | -     | 19               | 2,549  | 33.3  |
| Total                 | 4,204 | 17,332 | 100.0 | 5,257 | 17,093 | 100.0 | 5,021             | 19,903 | 100.0 | 10               | 850    | 100.0 | 3,987             | 17,384 | 100.0 | 52               | 4,554  | 100.0 | 1,913             | 10,044 | 100.0 | 67               | 7,645  | 100.0 |

|  | 1977  |        |       | 1978  |        |       | 1979              |        |       |                  |        |       | 1980              |        |       |                  |        |       | 1981 (June 30)    |        |       |                  |        |       |
|--|-------|--------|-------|-------|--------|-------|-------------------|--------|-------|------------------|--------|-------|-------------------|--------|-------|------------------|--------|-------|-------------------|--------|-------|------------------|--------|-------|
|  |       |        |       |       |        |       | Domestic currency |        |       | Foreign currency |        |       | Domestic currency |        |       | Foreign currency |        |       | Domestic currency |        |       | Foreign currency |        |       |
|  | No.   | Amount | %     | No.   | Amount | %     | No.               | Amount | %     | No.              | Amount | %     | No.               | Amount | %     | No.              | Amount | %     | No.               | Amount | %     | No.              | Amount | %     |
| <b>Sectoral Distribution</b>                 |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Manufacturing                                |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Food, beverage & tobacco                     | 273   | 734    | 4.2   | 292   | 802    | 4.7   | 171               | 576    | 2.9   | -                | -      | -     | 71                | 248    | 1.4   | 4                | 401    | 8.8   | 47                | 151    | 1.5   | -                | -      | -     |
| Textile, wearing apparel & leather           | 616   | 3,239  | 18.7  | 831   | 3,656  | 21.4  | 483               | 2,861  | 14.4  | -                | -      | -     | 137               | 766    | 4.4   | 5                | 770    | 16.9  | 108               | 633    | 6.3   | 8                | 1,094  | 14.3  |
| Wood & wood products                         | 31    | 1,716  | 9.9   | 45    | 1,746  | 10.2  | 66                | 768    | 3.9   | -                | -      | -     | 59                | 486    | 2.8   | 1                | 90     | 2.0   | 32                | 261    | 2.6   | 1                | 184    | 2.4   |
| Paper, paper products & printing             | 382   | 1,155  | 6.7   | 427   | 1,115  | 6.5   | 190               | 875    | 4.4   | -                | -      | -     | 119               | 568    | 3.3   | 2                | 85     | 1.9   | 95                | 572    | 5.7   | 18               | 1,458  | 19.1  |
| Chemicals, petroleum, coal, rubber & plastic | 439   | 1,606  | 9.3   | 493   | 1,762  | 10.3  | 268               | 1,082  | 5.4   | 2                | 209    | 24.6  | 178               | 848    | 4.9   | 7                | 601    | 13.2  | 124               | 793    | 7.9   | 3                | 103    | 1.3   |
| Nonmetallic mineral products                 | 216   | 858    | 4.9   | 403   | 692    | 4.1   | 155               | 423    | 2.1   | -                | -      | -     | 39                | 150    | 0.9   | 2                | 89     | 2.0   | 26                | 110    | 1.1   | 2                | 186    | 2.4   |
| Basic metals                                 | 249   | 593    | 3.4   | 292   | 720    | 4.2   | 124               | 249    | 1.3   | -                | -      | -     | 58                | 152    | 0.9   | 1                | 29     | 0.6   | 19                | 80     | 0.8   | -                | -      | -     |
| Metal products, machinery & equipment        | 601   | 1,981  | 11.5  | 789   | 1,973  | 11.5  | 494               | 1,516  | 7.6   | 7                | 610    | 71.8  | 763               | 2,618  | 15.0  | 8                | 443    | 9.7   | 343               | 1,647  | 16.4  | 10               | 1,050  | 13.8  |
| Others                                       | -     | -      | -     | -     | -      | -     | 226               | 1,342  | 6.7   | 1                | 31     | 3.6   | 277               | 1,392  | 8.0   | 3                | 437    | 9.6   | 107               | 552    | 5.5   | -                | -      | -     |
| Total Manufacturing                          | 2,807 | 11,882 | 68.6  | 3,572 | 12,466 | 72.9  | 2,177             | 9,692  | 48.7  | 10               | 850    | 100.0 | 1,701             | 7,228  | 41.6  | 33               | 2,945  | 64.7  | 901               | 4,799  | 47.8  | 42               | 4,075  | 53.3  |
| Mining                                       | 30    | 243    | 1.4   | 34    | 279    | 1.6   | 17                | 115    | 0.6   | -                | -      | -     | 6                 | 80     | 0.5   | -                | -      | -     | 5                 | 40     | 0.4   | -                | -      | -     |
| Transportation                               | 390   | 1,489  | 8.6   | 491   | 1,387  | 8.1   | 1,436             | 5,105  | 25.6  | -                | -      | -     | 994               | 4,674  | 26.9  | 1                | 55     | 1.2   | 517               | 2,722  | 27.1  | 2                | 378    | 4.9   |
| Construction                                 | 152   | 801    | 4.6   | 209   | 795    | 4.7   | 131               | 651    | 3.3   | -                | -      | -     | 67                | 283    | 1.6   | 5                | 548    | 12.0  | 59                | 220    | 2.2   | 19               | 2,281  | 29.9  |
| Others                                       | 825   | 2,917  | 16.8  | 951   | 2,166  | 12.7  | 1,260             | 4,340  | 21.8  | -                | -      | -     | 1,219             | 5,119  | 29.4  | 13               | 1,006  | 22.1  | 431               | 2,263  | 22.5  | 4                | 911    | 11.9  |
| Total  | 4,204 | 17,332 | 100.0 | 5,257 | 17,093 | 100.0 | 5,021             | 19,903 | 100.0 | 10               | 850    | 100.0 | 3,987             | 17,384 | 100.0 | 52               | 4,554  | 100.0 | 1,913             | 10,044 | 100.0 | 67               | 7,645  | 100.0 |
| <b>Geographic Distribution</b>               |       |        |       |       |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |                   |        |       |                  |        |       |
| Seoul City                                   | 2,518 | 9,939  | 57.3  | 3,163 | 9,727  | 56.9  | 2,450             | 8,839  | 44.4  | 8                | 649    | 76.4  | 1,713             | 7,772  | 44.7  | 25               | 1,750  | 38.4  | 552               | 4,168  | 41.5  | 25               | 3,134  | 41.0  |
| Kyung-gi province                            | 160   | 884    | 5.1   | 189   | 929    | 5.4   | 292               | 1,507  | 7.6   | 1                | 136    | 16.0  | 262               | 1,310  | 7.5   | 9                | 973    | 21.4  | 156               | 844    | 8.4   | 14               | 1,111  | 14.5  |
| South Chungcheung province                   | 227   | 555    | 3.2   | 283   | 581    | 3.4   | 225               | 874    | 4.4   | -                | -      | -     | 187               | 759    | 4.4   | -                | -      | -     | 105               | 382    | 3.8   | 5                | 850    | 11.1  |
| North Chungcheung province                   | 101   | 276    | 1.6   | 116   | 301    | 1.8   | 105               | 412    | 2.1   | -                | -      | -     | 99                | 358    | 2.1   | 1                | 50     | 1.1   | 38                | 220    | 2.2   | -                | -      | -     |
| Kang Won province                            | 91    | 797    | 4.6   | 107   | 807    | 4.7   | 128               | 541    | 2.7   | -                | -      | -     | 109               | 470    | 2.7   | -                | -      | -     | 52                | 270    | 2.7   | 4                | 534    | 7.0   |
| South Jeon Ra province                       | 147   | 607    | 3.5   | 163   | 612    | 3.6   | 185               | 717    | 3.6   | -                | -      | -     | 168               | 623    | 3.6   | 4                | 349    | 7.7   | 143               | 502    | 5.0   | 3                | 531    | 7.0   |
| North Jeon Ra province                       | 130   | 526    | 3.1   | 158   | 524    | 3.1   | 223               | 682    | 3.4   | -                | -      | -     | 214               | 592    | 3.4   | -                | -      | -     | 78                | 310    | 3.1   | 6                | 482    | 6.3   |
| South Kyungsang province                     | 210   | 814    | 4.7   | 294   | 821    | 4.8   | 289               | 1,120  | 5.6   | -                | -      | -     | 301               | 973    | 5.6   | 3                | 354    | 7.8   | 217               | 693    | 6.9   | 5                | 456    | 6.0   |
| North Kyungsang province                     | 280   | 1,335  | 7.7   | 364   | 1,345  | 7.9   | 385               | 1,906  | 9.6   | -                | -      | -     | 328               | 1,656  | 9.5   | 5                | 532    | 11.7  | 261               | 1,155  | 11.5  | 3                | 453    | 5.9   |
| Busan City                                   | 307   | 1,461  | 8.4   | 373   | 1,307  | 7.6   | 691               | 3,151  | 15.8  | 1                | 65     | 7.6   | 569               | 2,737  | 15.7  | 4                | 490    | 10.7  | 295               | 1,440  | 14.3  | 2                | 94     | 1.2   |
| Chejue province                              | 33    | 138    | 0.8   | 47    | 139    | 0.8   | 48                | 154    | 0.8   | -                | -      | -     | 37                | 134    | 0.8   | 1                | 56     | 1.2   | 16                | 60     | 0.6   | -                | -      | -     |
| Total  | 4,204 | 17,332 | 100.0 | 5,257 | 17,093 | 100.0 | 5,021             | 19,903 | 100.0 | 10               | 850    | 100.0 | 3,987             | 17,384 | 100.0 | 52               | 4,554  | 100.0 | 1,913             | 10,044 | 100.0 | 67               | 7,645  | 100.0 |

/a In case of domestic currency loan, nature of project and total assets are not available.

/b Balancing, modernization and replacement.

ARP Projects Department  
December 7, 1981

KOREA

THE CITIZENS NATIONAL BANK

Summarized Balance Sheets, 1977 - 1981  
(In Won million)

| As of December 31,                       | 1977           | 1978           | 1979             | 1980             | 1981             |
|--|----------------|----------------|------------------|------------------|------------------|
|  | (audited)      |                |                  |                  | (unaudited)      |
| <u>ASSETS</u>                            |                |                |                  |                  |                  |
| <u>Current Assets</u>                    |                |                |                  |                  |                  |
| Cash and checks                          | 27,532         | 63,976         | 90,076           | 76,602           | 92,202           |
| Due from Bank of Korea /a                | 69,379         | 79,646         | 185,053          | 95,090           | 27,559           |
| Deposits with other domestic banks       | 99,294         | 60,007         | 97,153           | 110,831          | 99,027           |
| Foreign currency deposits                | 20             | 29             | 4                | 84               | 265              |
| Short-term loans:                        |                |                |                  |                  |                  |
| Business loans                           | 5,017          | 4,690          | 53,905           | 67,368           | 114,286          |
| General populace loans /b                | 4,698          | 23,016         | 42,377           | 51,572           | 116,626          |
| <u>Total Short-Term Loans</u>            | <u>10,515</u>  | <u>27,706</u>  | <u>96,282</u>    | <u>118,940</u>   | <u>230,912</u>   |
| Securities                               | 1,361          | 19,246         | 88,379           | 74,993           | 158,930          |
| Call loans                               | -              | 90,000         | -                | 30,000           | 83,000           |
| Current maturities                       |                |                |                  |                  |                  |
| Securities and deposits                  | 43,021         | 93,729         | 103,845          | 205,619          | 251,068          |
| Term loans                               | 140,081        | 251,804        | 324,941          | 514,441          | 705,598          |
| Other current assets                     | 2,911          | 5,966          | 6,013            | 18,180           | 30,987           |
| <u>Total Current Assets</u>              | <u>394,114</u> | <u>692,109</u> | <u>991,746</u>   | <u>1,244,780</u> | <u>1,679,548</u> |
| <u>Medium-/Long-Term Assets</u>          |                |                |                  |                  |                  |
| Medium-term deposits with domestic banks | 435            | 239            | -                | -                | -                |
| Domestic currency equipment loans        | 22,271         | 23,407         | 25,116           | 24,629           | 19,000           |
| Working capital loans                    | 91,800         | 61,760         | 63,124           | 101,088          | 120,033          |
| General populace loans /b                | 69,173         | 69,298         | 57,775           | 78,115           | 112,294          |
| Foreign currency loans                   | -              | -              | -                | 1,731            | 10,780           |
| <u>Total Term Loans</u>                  | <u>183,244</u> | <u>154,465</u> | <u>146,015</u>   | <u>205,563</u>   | <u>262,107</u>   |
| Less: Provision for doubtful loans       | (1,190)        | (924)          | (2,417)          | (3,536)          | (9,417)          |
| <u>Net Term Loan Portfolio</u>           | <u>182,054</u> | <u>153,541</u> | <u>143,598</u>   | <u>202,027</u>   | <u>252,690</u>   |
| Equity investments                       | 2,049          | 2,752          | -                | -                | -                |
| Other medium-/long-term assets           | 4,177          | 9,848          | 15,598           | 22,000           | 43,100           |
| <u>Fixed Assets</u>                      |                |                |                  |                  |                  |
| Premises and equipment (net)             | 8,195          | 10,303         | 26,361           | 32,277           | 44,446           |
| <u>Total Assets</u>                      | <u>591,024</u> | <u>868,792</u> | <u>1,177,303</u> | <u>1,501,084</u> | <u>2,019,784</u> |

/a Including BOK's reserve requirements.

/b Including households and individuals.

| As of December 31,  | 1977           | 1978           | 1979             | 1980             | 1981             |
|---|----------------|----------------|------------------|------------------|------------------|
|   | (audited)      |                |                  | (unaudited)      |                  |
| <b>LIABILITIES AND EQUITY</b>                             |                |                |                  |                  |                  |
| <b><u>Current Liabilities</u></b>                         |                |                |                  |                  |                  |
| Demand deposits   | 111,641        | 161,173        | 209,790          | 223,600          | 254,623          |
| Time and savings deposits                                 | 190,364        | 291,867        | 438,836          | 629,258          | 902,164          |
| Subtotal  | <u>302,005</u> | <u>453,040</u> | <u>648,626</u>   | <u>852,858</u>   | <u>1,156,787</u> |
| Short-term borrowings                                     | 1,690          | -              | -                | 190              | 809              |
| Debentures issued   | -              | -              | 1,818            | 1,089            | 48               |
| Current maturities  |                |                |                  |                  |                  |
| Deposits /a   | 42,385         | 78,240         | 170,543          | 186,062          | 225,175          |
| Borrowings  | -              | -              | 333              | 78               | 440              |
| Other current liabilities                                 | 30,658         | 50,699         | 64,951           | 94,815           | 134,674          |
| Total Current Liabilities                                 | <u>376,738</u> | <u>581,979</u> | <u>886,271</u>   | <u>1,135,092</u> | <u>1,517,933</u> |
| <b><u>Medium-/Long-Term Liabilities</u></b>               |                |                |                  |                  |                  |
| Mutual installment savings /a                             | 97,802         | 121,314        | 118,363          | 148,284          | 199,924          |
| Time and savings deposits                                 | 41,979         | 60,683         | 26,304           | 41,748           | 67,929           |
| Property formation savings deposits                       | 60,194         | 82,779         | 86,981           | 98,805           | 127,228          |
| Total Term Deposits                                       | <u>199,975</u> | <u>264,776</u> | <u>231,648</u>   | <u>288,837</u>   | <u>395,081</u>   |
| Borrowings:   |                |                |                  |                  |                  |
| BOK   | 1,500          | 1,500          | -                | 77               | 5,537            |
| KDB   | 30             | 27             | -                | -                | -                |
| Government  | 1,300          | 1,000          | 373              | 243              | -                |
| ADB   | -              | -              | -                | 1,731            | 5,152            |
| IBRD  | -              | -              | -                | -                | 5,948            |
| Debentures issued   | 435            | 239            | 35               | -                | -                |
| Other long-term liabilities                               | 16             | 35             | -                | 33               | -                |
| Total Medium-/Long-Term Liabilities                       | <u>203,256</u> | <u>267,577</u> | <u>232,056</u>   | <u>290,921</u>   | <u>411,718</u>   |
| Provisions for Retirement Grants                          | 1,660          | 8,160          | 21,681           | 28,561           | 36,364           |
| <b><u>Equity</u></b>                                      |                |                |                  |                  |                  |
| Paid-in capital   | 5,000          | 5,000          | 30,000           | 30,000           | 30,000           |
| Capital surplus   | 10             | 10             | 71               | 71               | 71               |
| Legal reserves  | 1,095          | 1,395          | 1,922            | 2,546            | 6,867            |
| Other reserves  | 2,575          | 2,925          | 4,124            | 4,675            | 9,732            |
| Retained earnings   | 690            | 1,746          | 1,178            | 9,218            | 7,099            |
| Total Equity  | <u>9,370</u>   | <u>11,076</u>  | <u>37,295</u>    | <u>46,510</u>    | <u>53,769</u>    |
| Total Liabilities and Equity                              | <u>591,024</u> | <u>868,792</u> | <u>1,177,303</u> | <u>1,501,084</u> | <u>2,019,784</u> |
| <b>Ratios</b>   |                |                |                  |                  |                  |
| Current ratio   | 0.63:1         | 0.69:1         | 0.79:1           | 0.56:1           | 0.57:1           |
| Current ratio /b (ADB definition)                         | 1.05:1         | 1.20:1         | 1.13:1           | 1.11:1           | 1.11:1           |
| Long-term debt /c/equity (under ADB and first IBRD loans) | 12.4:1         | 4.4:1          | 3.7:1            | 3.7:1            | 4.7:1            |
| Long-term debt /d/equity (new IBRD definition)            | 15.5:1         | 20.3:1         | 6.7:1            | 6.1:1            | 7.6:1            |

/a Of which installment receipts on remunerated mutual installment savings 100,403 120,770 153,699 192,194 258,184

/b Current assets + current maturities - remunerated mutual installment savings to current liabilities + current maturities - remunerated mutual installment savings.

/c Long-term debt + long-term guarantees - current maturities - reserve requirements by Bank of Korea - remunerated mutual installment savings to total unimpaired paid-in capital, surplus and reserves.

/d Long-term debt + long-term guarantees + current maturities - installment receipts on remunerated mutual installment savings to total unimpaired paid-in capital surplus and reserves.



KOREA

THE CITIZENS NATIONAL BANK

/a  
Summarized Income Statements, 1977 - 1981  
(In Won million)

| For years ended December 31,            | 1977          | 1978          | 1979           | 1980           | 1981 /b        |
|---|---------------|---------------|----------------|----------------|----------------|
|   | -----         | (audited)     | -----          | -----          | (unaudited)    |
| <u>Income</u>                           |               |               |                |                |                |
| Interest on business loans              | 28,460        | 35,133        | 48,170         | 72,690         | 94,731         |
| Interest on general populace loans      | 16,520        | 26,062        | 36,795         | 58,794         | 94,068         |
| Interest on foreign currency loans      | -             | -             | -              | 58             | 612            |
| Interest on deposits with banks         | 11,306        | 16,625        | 22,758         | 31,417         | 32,082         |
| Interest on securities                  | 2,980         | 12,531        | 24,736         | 49,420         | 69,411         |
| <u>Total Interest Income</u>            | <u>59,266</u> | <u>90,351</u> | <u>132,459</u> | <u>212,379</u> | <u>290,904</u> |
| Dividends on investments                | 192           | 6             | 7              | 19             | 43             |
| Fees and commissions                    | 1,033         | 1,366         | 1,391          | 1,257          | 2,335          |
| Other income                            | 2,907         | 6,846         | 13,137         | 14,388         | 12,719         |
| <u>Gross Income</u>                     | <u>63,423</u> | <u>98,706</u> | <u>147,271</u> | <u>228,192</u> | <u>306,001</u> |
| <u>Expenses</u>                         |               |               |                |                |                |
| Interest on:                            |               |               |                |                |                |
| Mutual installment receipts             | 11,033        | 14,059        | 17,773         | 24,172         | 39,125         |
| Other deposits                          | 31,149        | 48,874        | 77,363         | 129,516        | 177,082        |
| Domestic currency borrowings            | 189           | 161           | 155            | 28             | 194            |
| Foreign currency borrowings             | -             | -             | -              | 68             | 566            |
| <u>Total Interest Expenses</u>          | <u>42,371</u> | <u>63,094</u> | <u>95,291</u>  | <u>153,784</u> | <u>216,967</u> |
| Contribution to Credit Guarantee Fund   | 1,143         | 1,044         | 1,307          | 1,092          | 1,473          |
| General administrative expenses         | 17,524        | 27,070        | 42,154         | 51,224         | 70,891         |
| Other expenses                          | 761           | 4,394         | 4,505          | 3,151          | 2,406          |
| <u>Total Expenses</u>                   | <u>61,799</u> | <u>95,602</u> | <u>143,257</u> | <u>209,251</u> | <u>291,737</u> |
| <u>Income Before Provisions and Tax</u> | <u>1,624</u>  | <u>3,104</u>  | <u>4,014</u>   | <u>18,941</u>  | <u>14,264</u>  |
| Provision for doubtful loans            | 192           | 734           | 1,516          | 1,657          | 5,901          |
| <u>Income Before Tax</u>                | <u>1,432</u>  | <u>2,370</u>  | <u>2,498</u>   | <u>17,284</u>  | <u>8,363</u>   |
| Tax                                     | 418           | 264           | 375            | 2,669          | 1,264          |
| <u>Net Income</u>                       | <u>1,014</u>  | <u>2,106</u>  | <u>2,123</u>   | <u>14,615</u>  | <u>7,099</u>   |

| For years ended December 31,   | 1977         | 1978         | 1979         | 1980          | 1981 <u>/b</u> |
|--|--------------|--------------|--------------|---------------|----------------|
|  | -----        | (audited)    | -----        |               | (unaudited)    |
| <u>Appropriations</u>  |              |              |              |               |                |
| Dividends  | 378          | 400          | 965          | 5,400         | 4,500          |
| Reserves   | 650          | 1,726        | 1,175        | 9,211         | 2,599          |
| Unappropriated retained earnings                                     | (14)         | (20)         | (17)         | 4             | -              |
| <u>Total</u>   | <u>1,014</u> | <u>2,106</u> | <u>2,123</u> | <u>14,615</u> | <u>7,099</u>   |
| <u>Ratios</u>  |              |              |              |               |                |
| <u>Percentage of Average Total Assets</u>                            |              |              |              |               |                |
| 1. Gross income  | 13.2         | 13.5         | 14.4         | 17.0          | 17.4           |
| 2. Financial expenses  | 8.8          | 8.6          | 9.3          | 11.5          | 12.3           |
| 3. Gross spread (1 - 2)  | 4.4          | 4.9          | 5.1          | 5.5           | 5.1            |
| 4. Administrative expenses   | 3.6          | 3.7          | 4.1          | 3.8           | 4.0            |
| 5. Provisions, taxes and others                                      | 0.6          | 0.9          | 0.8          | 0.6           | 0.7            |
| 6. Net income  | 0.2          | 0.3          | 0.2          | 1.1           | 0.4            |
| <u>Other Ratios</u>  |              |              |              |               |                |
| Net income as % of average equity                                    | 11.5         | 20.6         | 8.8          | 34.9          | 14.8           |
| Income from loans as % of average loan portfolio <u>/c</u>           | 15.4         | 16.0         | 17.3         | 19.5          | 18.6           |
| Cost of debt as % of average total deposits and borrowings <u>/c</u> | 9.6          | 9.8          | 10.6         | 13.4          | 14.2 <u>/b</u> |
| Interest spread  | 5.7          | 6.2          | 6.7          | 6.1           | 4.4            |
| Dividend payout  | 37           | 19           | 45           | 37            | 63.0           |
| Book value as % of par   | 187          | 222          | 124          | 155           | 179.0          |
| Interest cover   | 1.04         | 1.03         | 1.11         | 1.25          | 1.12           |

/a In accordance with generally accepted accounting practices for banks in Korea, CNB maintains and reports its financial records on a modified cash basis, recognizing income on an actual receipt basis and expenses on an accrual basis.

/b Preliminary figures.

/c Based on average of daily balances.

AEP Projects Department  
March 29, 1982

KOREA

THE CITIZENS NATIONAL BANK

Summarized Cash Flow Statement, 1977 - June 30, 1981  
(In won million)

| Years ended December 31,                  | 1977             | 1978              | 1979              | 1980              | 01/01-06/30<br>1981 |
|---|------------------|-------------------|-------------------|-------------------|---------------------|
| <u>Sources</u>                            |                  |                   |                   |                   |                     |
| Operations:                               |                  |                   |                   |                   |                     |
| Net income                                | 1,014            | 2,106             | 2,123             | 14,615            | 20,716              |
| Noncash charges /a                        | 2,645            | 8,740             | 16,242            | 12,871            | -                   |
| Less:                                     |                  |                   |                   |                   |                     |
| Noncash profit /b                         | -                | 983               | 600               | 618               | -                   |
| Subtotal                                  | <u>3,659</u>     | <u>9,863</u>      | <u>17,765</u>     | <u>26,868</u>     | <u>20,716</u>       |
| Received in mutual installment receipts   | 129,590          | 161,458           | 197,718           | 237,823           | 140,654             |
| Received in deposits                      | 7,100,107        | 12,502,659        | 19,675,858        | 26,483,329        | 13,527,638          |
| Borrowings: Bank of Korea                 | 35               | -                 | 279               | 662               | 2,783               |
| ADB                                       | -                | -                 | -                 | 1,808             | 2,010               |
| IBRD                                      | -                | -                 | -                 | -                 | 2,219               |
| Others                                    | 16,750           | 153,390           | 12,170            | 347,150           | 61,870              |
| Issued property formation debentures      | -                | -                 | 2,148             | 1,285             | -                   |
| Increase in other liabilities             | 224,494          | 282,881           | 700,351           | 1,043,308         | 716,583             |
| Increase in paid-in capital               | 500              | -                 | 11,200            | -                 | -                   |
| Subtotal                                  | <u>7,471,476</u> | <u>13,100,388</u> | <u>20,599,724</u> | <u>28,115,365</u> | <u>14,453,757</u>   |
| Collections:                              |                  |                   |                   |                   |                     |
| Domestic currency business loans          | 148,313          | 135,197           | 117,023           | 168,606           | 119,873             |
| Foreign currency loans                    | -                | -                 | -                 | -                 | 17                  |
| General populace loans                    | 65,886           | 105,191           | 150,211           | 167,156           | 120,197             |
| Call-loans                                | 684,040          | 1,481,900         | 3,762,300         | 2,908,800         | 1,078,600           |
| Withdrawn in deposits with domestic banks | 1,383,147        | 3,804,704         | 5,136,881         | 5,989,936         | 2,663,116           |
| Sale of securities                        | 47,758           | 236,769           | 95,094            | 343,918           | 78,196              |
| Sale of premises and equipments           | 255              | 1,539             | 102               | 216               | 696                 |
| Decrease in other assets                  | 4,996            | 9,916             | 11,285            | 14,239            | 20,189              |
| Subtotal                                  | <u>2,334,395</u> | <u>5,775,216</u>  | <u>9,272,896</u>  | <u>9,592,871</u>  | <u>4,080,878</u>    |
| <u>Total Sources</u>                      | <u>9,809,530</u> | <u>18,885,467</u> | <u>29,890,385</u> | <u>37,735,104</u> | <u>18,555,351</u>   |

| Years ended December 31,                 | 1977             | 1978              | 1979              | 1980              | 01/01-06/30<br>1981 |
|--|------------------|-------------------|-------------------|-------------------|---------------------|
| <u>Uses</u>                              |                  |                   |                   |                   |                     |
| Disbursements:                           |                  |                   |                   |                   |                     |
| Domestic currency business loans         | 186,495          | 169,556           | 200,172           | 299,516           | 168,768             |
| Foreign currency loans                   | -                | -                 | -                 | 1,808             | 4,229               |
| General populace loans                   | 108,488          | 170,984           | 200,325           | 306,144           | 224,194             |
| Call-loans                               | 684,040          | 1,571,900         | 3,672,300         | 2,938,800         | 1,112,600           |
| Deposited with domestic banks            | 1,502,902        | 3,796,147         | 5,278,353         | 5,904,159         | 2,675,268           |
| Purchase of securities                   | 50,135           | 285,406           | 172,414           | 441,798           | 99,912              |
| New premises and equipments              | 1,334            | 3,996             | 1,708             | 7,277             | 3,497               |
| Increase in other assets                 | 7,159            | 18,636            | 17,105            | 32,048            | 23,556              |
| Subtotal                                 | <u>2,540,553</u> | <u>6,016,625</u>  | <u>9,542,377</u>  | <u>9,931,550</u>  | <u>4,312,024</u>    |
| Withdrawn in mutual installment receipts | 101,587          | 131,299           | 156,190           | 197,462           | 104,730             |
| Withdrawn in deposits                    | 6,925,080        | 12,281,127        | 19,462,625        | 26,246,750        | 13,346,867          |
| Repaid against borrowings                | 15,504           | 499               | 14,270            | 348,007           | 63,982              |
| Decrease in other liabilities            | 211,742          | 418,135           | 687,224           | 1,020,760         | 722,853             |
| Subtotal                                 | <u>7,253,913</u> | <u>12,831,060</u> | <u>20,320,309</u> | <u>27,812,979</u> | <u>14,238,432</u>   |
| Paid dividends                           | 314              | 378               | 400               | 965               | 5,400               |
| Paid retirement grants                   | 689              | 951               | 1,228             | 3,084             | 358                 |
| Subtotal                                 | <u>1,003</u>     | <u>1,329</u>      | <u>1,628</u>      | <u>4,049</u>      | <u>5,758</u>        |
| <u>Total Uses</u>                        | <u>9,795,469</u> | <u>18,849,014</u> | <u>29,864,314</u> | <u>37,748,578</u> | <u>18,556,214</u>   |

/a Including depreciation on tangible fixed assets, provisions for doubtful loans, and provisions for retirement grants.

/b Including transfer of remaining amount of provisions for doubtful loans.

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Analysis of Loan Portfolio in Arrears, 1977 - June 30, 1981  
(In won million)

|   | 1977    |         | 1978    |         | 1979    |         | 1980    |         | Foreign        |        | June 30, 1981 |         | Foreign        |        |
|---|---------|---------|---------|---------|---------|---------|---------|---------|----------------|--------|---------------|---------|----------------|--------|
|   |         |         |         |         |         |         |         |         | currency loans |        |               |         | currency loans |        |
|   | Number  | Amount  | Number  | Amount  | Number  | Amount  | Number  | Amount  | Number         | Amount | Number        | Amount  | Number         | Amount |
| <b>A. Portfolio Status</b>  |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Total loans outstanding   | 267,415 | 333,840 | 295,809 | 433,975 | 288,024 | 567,238 | 319,849 | 838,904 | 22             | 1,808  | 441,535       | 996,048 | 65             | 6,020  |
| Less: Outstanding loans in grace period   | 295     | 3,960   | 358     | 4,416   | 284     | 4,076   | 382     | 5,695   | 22             | 1,808  | 366           | 8,512   | 62             | 5,712  |
| Loans in repayment stage  | 267,120 | 329,880 | 295,451 | 429,559 | 287,740 | 563,162 | 319,467 | 833,249 | -              | -      | 441,169       | 987,536 | 3              | 308    |
| Outstanding amount of loans affected by arrears   | 31,485  | 38,542  | 31,502  | 41,648  | 28,946  | 50,180  | 30,481  | 68,665  | -              | -      | 66,388        | 169,024 | 2              | 277    |
| <b>Arrears</b>  |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Principal   | 31,485  | 2,293   | 31,502  | 2,447   | 28,946  | 3,146   | 30,481  | 5,542   | -              | -      | 66,388        | 13,154  | 2              | -      |
| Interest  |         | 1,062   |         | 2,119   |         | 4,097   |         | 5,696   |                |        |               | /b      |                |        |
| Total Arrears   |         | 3,355   |         | 4,566   |         | 7,243   |         | 11,238  |                |        |               |         |                |        |
| Loans affected by arrears as % of total loans outstanding                               | 11.8    | 11.5    | 10.7    | 9.6     | 10.0    | 8.8     | 9.5     | 8.2     |                |        | 15.0          | 17.0    |                | 4.6    |
| Total arrears as % of total loans outstanding   |         | 1.0     |         | 1.1     |         | 1.3     |         | 1.3     |                |        |               |         |                |        |
| Total arrears of principal as % of total loans in repayment stage                       |         | 0.7     |         | 0.6     |         | 0.6     |         | 0.7     |                |        |               | 1.3     |                | -      |
| Collection rate (%)   |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Principal   |         | 98.7    |         | 99.0    |         | 98.8    |         | 98.4    |                |        |               | 94.8    |                | 100.0  |
| Interest  |         | 97.7    |         | 96.7    |         | 95.4    |         | 95.8    |                |        |               | -       |                |        |
| Total   |         | 98.4    |         | 98.5    |         | 98.0    |         | 97.7    |                |        |               | -       |                |        |
| <b>B. Rescheduling</b>  |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Principal amount rescheduled (of which due at the time of rescheduling)                 | 3,266   | 6,448   | 5,147   | 16,228  | 3,830   | 22,588  | 5,342   | 36,028  |                |        | 3,957         | 29,651  |                |        |
| Rescheduling as % of outstanding loans  |         | 1.9     |         | 3.7     |         | 4.0     |         | 4.3     |                |        |               | 3.0     |                |        |
| <b>C. Write-Offs</b>  |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Loans written off   | 702     | 18      | 21      | 17      | 17      | 14      | 7       | 17      |                |        | -             | -       |                |        |
| Write-offs as % of outstanding loans  |         | 0.005   |         | 0.004   |         | 0.002   |         | 0.002   |                |        |               |         |                |        |
| <b>D. Loan Amount Consigned to the Korea Readjustment Corporation for Collection /a</b> |         |         |         |         |         |         |         |         |                |        |               |         |                |        |
| Consigned to RAC  | 3       | 26      | 8       | 105     | 11      | 145     | 65      | 557     |                |        | 16            | 361     |                |        |
| Principal affected as % of outstanding loans  |         | 0.008   |         | 0.024   |         | 0.026   |         | 0.067   |                |        |               | 0.036   |                |        |
| Collected   | 2       | 13      | 2       | 48      | 10      | 107     | 39      | 254     |                |        | 8             | 131     |                |        |

/a These amounts are included in arrears shown above.

/b Interest arrears as of June 30, 1981 are not available.

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Collection Performance, 1977 - June 30, 1981  
(In won million)

|   | Overdue        |               | Maturing during the year |               | Total during the year |               |         | Actual collection |               |         | Collection rate (%) |               |       |
|---|----------------|---------------|--------------------------|---------------|-----------------------|---------------|---------|-------------------|---------------|---------|---------------------|---------------|-------|
|   | Prin-<br>cipal | Inter-<br>est | Prin-<br>cipal           | Inter-<br>est | Prin-<br>cipal        | Inter-<br>est | Total   | Prin-<br>cipal    | Inter-<br>est | Total   | Prin-<br>cipal      | Inter-<br>est | Total |
| <u>Equipment Loans in Domestic Currency</u> |                |               |                          |               |                       |               |         |                   |               |         |                     |               |       |
| 1977  | 193            | 82            | 7,459                    | 3,401         | 7,652                 | 3,483         | 11,135  | 7,450             | 3,424         | 10,874  | 97.4                | 98.3          | 97.7  |
| 1978  | 202            | 59            | 7,754                    | 3,894         | 7,956                 | 3,953         | 11,909  | 7,723             | 3,833         | 11,556  | 97.1                | 97.0          | 97.0  |
| 1979  | 233            | 120           | 14,903                   | 5,609         | 15,136                | 5,729         | 20,865  | 14,979            | 5,622         | 20,601  | 99.0                | 98.1          | 98.7  |
| 1980  | 157            | 107           | 17,995                   | 7,308         | 18,152                | 6,059         | 24,211  | 18,016            | 5,943         | 23,959  | 99.3                | 98.1          | 99.0  |
| June 30, 1981                               | 136            | 116           | 8,885                    | -             | 9,021                 | -             | -       | 8,744             | 3,219         | 11,963  | 96.9                | -             | -     |
| <u>Equipment Loans in Foreign Currency</u>  |                |               |                          |               |                       |               |         |                   |               |         |                     |               |       |
| 1980  | -              | -             | -                        | 58            | -                     | 58            | 58      | -                 | 58            | 58      | -                   | 100.0         | 100.0 |
| June 30, 1981                               | -              | -             | 17                       | -             | 17                    | -             | -       | 17                | 152           | 169     | 100.0               | -             | -     |
| <u>Working Capital Loans to Industries</u>  |                |               |                          |               |                       |               |         |                   |               |         |                     |               |       |
| 1977  | 1,157          | 566           | 90,312                   | 25,136        | 91,469                | 25,702        | 117,171 | 90,236            | 25,036        | 115,272 | 98.7                | 97.4          | 98.4  |
| 1978  | 1,233          | 666           | 126,288                  | 31,458        | 127,521               | 32,124        | 159,645 | 126,124           | 31,300        | 157,424 | 98.9                | 97.4          | 98.6  |
| 1979  | 1,397          | 824           | 102,369                  | 43,109        | 103,766               | 43,933        | 147,699 | 102,044           | 42,548        | 144,592 | 98.3                | 96.8          | 97.9  |
| 1980  | 1,722          | 1,385         | 152,306                  | 66,326        | 154,028               | 69,067        | 223,095 | 150,590           | 66,747        | 217,337 | 97.8                | 96.6          | 97.4  |
| June 30, 1981                               | 3,437          | 2,319         | 115,321                  | -             | 118,758               | -             | -       | 111,129           | 41,139        | 152,268 | 93.6                | -             | -     |
| <u>General Populace Loans</u>               |                |               |                          |               |                       |               |         |                   |               |         |                     |               |       |
| 1977  | 820            | 225           | 70,275                   | 16,632        | 71,095                | 16,857        | 87,952  | 70,237            | 16,520        | 86,757  | 98.8                | 98.0          | 98.6  |
| 1978  | 858            | 337           | 108,620                  | 26,900        | 109,478               | 27,237        | 136,715 | 108,661           | 26,062        | 134,723 | 99.3                | 95.7          | 98.5  |
| 1979  | 817            | 1,175         | 150,661                  | 38,225        | 151,478               | 39,400        | 190,878 | 150,211           | 36,795        | 187,006 | 99.2                | 93.4          | 98.0  |
| 1980  | 1,267          | 2,605         | 167,857                  | 59,449        | 169,124               | 62,054        | 231,178 | 167,156           | 58,794        | 225,950 | 98.8                | 94.7          | 97.7  |
| June 30, 1981                               | 1,969          | 3,261         | 123,476                  | -             | 125,445               | -             | -       | 120,197           | 40,981        | 161,178 | 95.8                | -             | -     |
| <u>Total</u>                                |                |               |                          |               |                       |               |         |                   |               |         |                     |               |       |
| 1977  | 2,170          | 873           | 168,046                  | 45,169        | 170,216               | 46,042        | 216,258 | 167,923           | 44,980        | 212,903 | 98.7                | 97.7          | 98.4  |
| 1978  | 2,293          | 1,062         | 242,662                  | 62,252        | 244,955               | 63,314        | 308,269 | 242,508           | 61,195        | 303,703 | 99.0                | 96.7          | 98.5  |
| 1979  | 2,447          | 2,119         | 267,933                  | 86,943        | 270,380               | 89,062        | 359,442 | 267,234           | 84,965        | 352,199 | 98.8                | 95.4          | 98.0  |
| 1980  | 3,146          | 4,097         | 338,158                  | 133,141       | 341,304               | 137,238       | 478,542 | 335,762           | 131,542       | 467,304 | 98.4                | 95.8          | 97.7  |
| June 30, 1981                               | 5,542          | 5,696         | 247,699                  | -             | 253,241               | -             | -       | 240,087           | 85,491        | 325,578 | 94.8                | -             | -     |

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Projected Lending Operations, 1982-86  
(In won million)

|                            | 1981<br>(Actual) | 1982 /c          | 1983             | 1984             | 1985             | 1986             |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <u>Approvals</u>           |                  |                  |                  |                  |                  |                  |
| Business loans             |                  |                  |                  |                  |                  |                  |
| Equipment loans            |                  |                  |                  |                  |                  |                  |
| Domestic currency /a       | 27,917           | 36,000           | 49,000           | 69,000           | 97,000           | 126,000          |
| Foreign currency /b        | 11,050           | 25,608           | 34,080           | 38,340           | 46,860           | 55,380           |
| Working capital loans /a   | 335,949          | 404,000          | 561,000          | 721,000          | 933,000          | 1,214,000        |
| General populace loans /a  | 508,026          | 790,000          | 740,000          | 970,000          | 1,260,000        | 1,640,000        |
| <u>Total Approvals</u>     | <u>882,942</u>   | <u>1,255,608</u> | <u>1,384,080</u> | <u>1,798,340</u> | <u>2,336,860</u> | <u>3,035,380</u> |
| <u>Commitments</u>         |                  |                  |                  |                  |                  |                  |
| Business loans             |                  |                  |                  |                  |                  |                  |
| Equipment loans            |                  |                  |                  |                  |                  |                  |
| Domestic currency /a       | 27,917           | 36,000           | 49,000           | 69,000           | 97,000           | 126,000          |
| Foreign currency /b        | 11,903           | 23,826           | 33,725           | 37,630           | 41,150           | 53,960           |
| Working capital loans /a   | 335,949          | 404,000          | 561,000          | 721,000          | 933,000          | 1,214,000        |
| General populace loans /a  | 508,026          | 790,000          | 740,000          | 970,000          | 1,260,000        | 1,640,000        |
| <u>Total Commitments</u>   | <u>883,795</u>   | <u>1,253,826</u> | <u>1,383,725</u> | <u>1,797,630</u> | <u>2,336,150</u> | <u>3,033,960</u> |
| <u>Disbursements</u>       |                  |                  |                  |                  |                  |                  |
| Business loans             |                  |                  |                  |                  |                  |                  |
| Equipment loans            |                  |                  |                  |                  |                  |                  |
| Domestic currency /a       | 27,917           | 36,000           | 49,000           | 69,000           | 97,000           | 126,000          |
| Foreign currency /b        | 9,812            | 22,934           | 31,595           | 36,565           | 44,020           | 51,830           |
| Working capital loans /a   | 335,949          | 404,000          | 561,000          | 721,000          | 933,000          | 1,214,000        |
| General populace loans /a  | 508,026          | 790,000          | 740,000          | 970,000          | 1,260,000        | 1,640,000        |
| <u>Total Disbursements</u> | <u>881,704</u>   | <u>1,252,934</u> | <u>1,381,595</u> | <u>1,796,565</u> | <u>2,334,020</u> | <u>3,031,830</u> |

/a No time lag is assumed between approval, commitment and disbursement for domestic currency loan.

/b Exchange rate is assumed: US\$1.00 = W 710.

/c The figures for 1982 are based on operational plan approved by the Ministry of Finance.

AEP Projects Department  
February 9, 1982

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Forecast of Resource Position and Requirements, 1982-86  
(In won million)

|   | 1981<br>(Actual) | 1982             | 1983             | 1984             | 1985             | 1986             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>1. Domestic Currency Resources (Won million)</b>                         |                  |                  |                  |                  |                  |                  |
| <b>A. Long-Term Resources</b>   |                  |                  |                  |                  |                  |                  |
| Equity: Paid-in capital   | 30,000           | 40,000           | 50,000           | 60,000           | 70,000           | 80,000           |
| Reserves and retained earnings  | 23,769           | 23,832           | 29,539           | 37,008           | 45,302           | 53,976           |
| <b>Total Equity</b>   | <b>53,769</b>    | <b>63,832</b>    | <b>79,539</b>    | <b>97,008</b>    | <b>115,302</b>   | <b>133,976</b>   |
| Borrowings: Government  | 145              | -                | -                | -                | -                | -                |
| BOK   | 5,537            | 13,000           | 23,000           | 35,000           | 48,923           | 60,333           |
| SMIPC   | -                | 100              | 300              | 600              | 1,000            | 1,500            |
| Deposits /a   | 395,081          | 490,800          | 614,640          | 741,180          | 910,200          | 1,161,640        |
| <b>Total Borrowings</b>   | <b>400,763</b>   | <b>503,900</b>   | <b>637,940</b>   | <b>776,780</b>   | <b>960,123</b>   | <b>1,223,473</b> |
| <b>Total Long-Term Domestic Currency Resources</b>                          | <b>454,532</b>   | <b>567,732</b>   | <b>717,479</b>   | <b>873,788</b>   | <b>1,075,425</b> | <b>1,357,449</b> |
| Less: Term loans outstanding /a   | 251,327          | 313,542          | 383,000          | 468,000          | 604,000          | 818,000          |
| Fixed assets (net)  | 44,446           | 63,738           | 78,538           | 96,888           | 114,788          | 132,388          |
| BOK's reserve requirements  | 4,923            | 5,874            | 7,352            | 8,250            | 10,189           | 13,280           |
| Other long-term assets  | 43,100           | 49,828           | 63,882           | 74,399           | 85,907           | 98,707           |
| <b>Total Long-Term Lending and Investments</b>                              | <b>343,796</b>   | <b>432,982</b>   | <b>532,772</b>   | <b>647,537</b>   | <b>814,884</b>   | <b>1,062,375</b> |
| <b>Long-Term Resources Available for Further and Disbursement</b>           | <b>110,736</b>   | <b>134,750</b>   | <b>184,707</b>   | <b>226,251</b>   | <b>260,541</b>   | <b>295,074</b>   |
| <b>B. Short-Term Resources</b>  |                  |                  |                  |                  |                  |                  |
| Deposits  | 1,381,962        | 1,809,200        | 2,265,360        | 2,918,820        | 3,589,800        | 4,468,360        |
| Short-term borrowings from BOK and other banks                              | 954              | 1,500            | 2,200            | 3,000            | 4,077            | 8,167            |
| <b>Total Short-Term Domestic Currency Resources</b>                         | <b>1,382,916</b> | <b>1,810,700</b> | <b>2,267,560</b> | <b>2,921,820</b> | <b>3,593,877</b> | <b>4,476,527</b> |
| Less: Short-term loans outstanding  | 936,215          | 1,554,000        | 1,807,000        | 2,282,000        | 2,926,000        | 3,752,000        |
| BOK's reserve requirement   | 42,590           | 55,352           | 69,313           | 89,179           | 109,601          | 136,591          |
| <b>Total Short-Term Lending and Investments</b>                             | <b>978,805</b>   | <b>1,609,352</b> | <b>1,876,313</b> | <b>2,371,179</b> | <b>3,035,601</b> | <b>3,888,591</b> |
| <b>Short-Term Resources Available for Further and Disbursement</b>          | <b>404,111</b>   | <b>201,348</b>   | <b>391,247</b>   | <b>550,641</b>   | <b>558,276</b>   | <b>587,936</b>   |
| <b>C. Total Domestic Currency Resources</b>                                 |                  |                  |                  |                  |                  |                  |
| Total long-term resources   | 454,532          | 567,732          | 717,479          | 873,788          | 1,075,425        | 1,357,449        |
| Total short-term resources  | 1,382,916        | 1,810,700        | 2,267,560        | 2,921,820        | 3,593,877        | 4,476,527        |
| <b>Total Domestic Currency Resources</b>                                    | <b>1,837,448</b> | <b>2,378,432</b> | <b>2,985,039</b> | <b>3,795,608</b> | <b>4,669,302</b> | <b>5,833,976</b> |
| Less: Total long-term lending and investments                               | 343,796          | 432,982          | 532,772          | 647,537          | 814,884          | 1,062,375        |
| Total short-term lending and investments                                    | 978,805          | 1,609,352        | 1,876,313        | 2,371,179        | 3,035,601        | 3,888,591        |
| <b>Subtotal</b>   | <b>1,322,601</b> | <b>2,042,334</b> | <b>2,409,085</b> | <b>3,018,716</b> | <b>3,850,485</b> | <b>4,950,966</b> |
| <b>Total Domestic Currency Resources Available for Further Disbursement</b> | <b>514,847</b>   | <b>336,098</b>   | <b>575,954</b>   | <b>776,892</b>   | <b>818,817</b>   | <b>883,010</b>   |
| <b>2. Foreign Currency (US\$ million)</b>                                   |                  |                  |                  |                  |                  |                  |
| Uncommitted resources   | 33               | 46               | 52               | 45               | 32               | 27               |
| Borrowings from:  |                  |                  |                  |                  |                  |                  |
| ADB   | 30/b             | -                | 40               | -                | 50               | -                |
| IBRD  | -                | 30               | -                | 40               | -                | 60               |
| IBRD (Machinery Industry Project)   | -                | 10               | -                | -                | -                | -                |
| Other   | -                | -                | -                | -                | 10               | 10               |
| <b>Total Foreign Currency Resources</b>                                     | <b>63</b>        | <b>86</b>        | <b>92</b>        | <b>85</b>        | <b>92</b>        | <b>97</b>        |
| New loan commitments  | 17               | 34               | 47               | 53               | 65               | 76               |
| <b>Year-End Foreign Currency Resource Position</b>                          | <b>46</b>        | <b>52</b>        | <b>45</b>        | <b>32</b>        | <b>27</b>        | <b>21</b>        |

/a Net of current maturities.

/b The second ADB loan is expected to become effective in February 1982.



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THE CITIZENS NATIONAL BANK

Projected Balance Sheets, 1982-86  
(In Won million)

| Years ending December 31,           | 1981<br>(Actual) | 1982             | 1983             | 1984             | 1985             | 1986             |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                       |                  |                  |                  |                  |                  |                  |
| Current Assets                      |                  |                  |                  |                  |                  |                  |
| Cash and checks                     | 92,202           | 110,600          | 132,800          | 159,300          | 191,200          | 229,400          |
| Due from Bank of Korea              | 27,559           | 61,226           | 76,665           | 97,429           | 119,790          | 149,871          |
| Deposits with other domestic banks  | 99,027           | 63,000           | 130,000          | 180,000          | 182,000          | 191,000          |
| Foreign currency deposits           | 265              | 500              | 900              | 1,500            | 2,500            | 4,000            |
| Short-term loans                    |                  |                  |                  |                  |                  |                  |
| Business                            | 114,286          | 148,000          | 189,000          | 243,000          | 315,000          | 409,000          |
| General populace                    | 116,626          | 226,000          | 249,000          | 307,000          | 391,000          | 505,000          |
| <u>Total Short-Term Loans</u>       | <u>230,912</u>   | <u>374,000</u>   | <u>438,000</u>   | <u>550,000</u>   | <u>706,000</u>   | <u>914,000</u>   |
| Securities maturing within a year   | 158,930          | 13,000           | 137,000          | 212,000          | 167,000          | 119,000          |
| Call loans                          | 83,000           | 43,000           | 52,000           | 62,000           | 74,000           | 89,000           |
| Current maturities                  |                  |                  |                  |                  |                  |                  |
| Securities and deposits             | 251,068          | 314,000          | 393,000          | 491,000          | 61,3000          | 766,000          |
| Term loans                          |                  |                  |                  |                  |                  |                  |
| Working capital loans               | 277,327          | 367,000          | 485,000          | 641,000          | 935,000          | 1,176,000        |
| Domestic currency equipment loans   | 28,803           | 31,000           | 24,000           | 38,000           | 45,000           | 70,000           |
| Foreign currency equipment loans    | 295              | 997              | 2,824            | 5,368            | 8,908            | 13,556           |
| General populace loans              | 399,173          | 782,000          | 860,000          | 1,053,000        | 1,240,000        | 1,592,000        |
| Other current assets                | 30,987           | 25,566           | 32,568           | 61,140           | 98,858           | 155,424          |
| <u>Total Current Assets</u>         | <u>1,679,548</u> | <u>2,185,889</u> | <u>2,764,757</u> | <u>3,551,737</u> | <u>4,383,256</u> | <u>5,469,251</u> |
| Medium-/Long-Term Assets            |                  |                  |                  |                  |                  |                  |
| Term loans:                         |                  |                  |                  |                  |                  |                  |
| General populace loans              | 112,294          | 120,093          | 138,000          | 177,000          | 326,000          | 430,000          |
| Working capital loans               | 120,033          | 169,449          | 196,000          | 211,000          | 146,000          | 200,000          |
| Domestic currency equipment loans   | 19,000           | 24,000           | 49,000           | 80,000           | 132,000          | 188,000          |
| Foreign currency loans              | 10,780           | 33,037           | 61,808           | 93,005           | 128,117          | 166,391          |
| <u>Total Term Loans</u>             | <u>262,107</u>   | <u>346,579</u>   | <u>444,808</u>   | <u>561,005</u>   | <u>732,117</u>   | <u>984,391</u>   |
| Less: Provisions for doubtful loans | (9,417)          | (15,198)         | (20,445)         | (27,345)         | (36,278)         | (47,805)         |
| <u>Net Term Loan Portfolio</u>      | <u>252,690</u>   | <u>331,381</u>   | <u>424,363</u>   | <u>533,660</u>   | <u>695,839</u>   | <u>936,586</u>   |
| Other medium-/long-term assets      | 43,100           | 49,828           | 63,882           | 74,399           | 85,907           | 98,707           |
| Fixed Assets                        |                  |                  |                  |                  |                  |                  |
| Premises and equipment (net)        | 44,446           | 63,738           | 78,538           | 96,888           | 114,788          | 132,388          |
| <u>Total Assets</u>                 | <u>2,019,784</u> | <u>2,630,836</u> | <u>3,331,540</u> | <u>4,256,684</u> | <u>5,279,790</u> | <u>6,636,932</u> |

| Years ending December 31,                      | 1981<br>(Actual) | 1982             | 1983             | 1984             | 1985             | 1986             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>LIABILITIES AND EQUITY</b>                  |                  |                  |                  |                  |                  |                  |
| <b>Current Liabilities</b>                     |                  |                  |                  |                  |                  |                  |
| Demand deposits                                | 254,623          | 299,000          | 374,400          | 475,800          | 585,000          | 731,900          |
| Time and savings deposits                      | 970,655          | 1,161,700        | 1,465,000        | 1,885,000        | 2,295,000        | 2,846,000        |
| Property formation savings deposits            | 31,509           | 81,000           | 111,000          | 165,000          | 230,000          | 300,000          |
| Subtotal                                       | <u>1,156,787</u> | <u>1,541,700</u> | <u>1,950,400</u> | <u>2,525,800</u> | <u>3,110,000</u> | <u>3,877,900</u> |
| Borrowing from BOK                             | 809              | 1,500            | 2,200            | 3,000            | 4,000            | 5,500            |
| Debenture issued                               | 48               | -                | -                | -                | -                | -                |
| <b>Current maturities</b>                      |                  |                  |                  |                  |                  |                  |
| Deposits                                       | 225,175          | 267,500          | 314,960          | 393,020          | 479,800          | 590,460          |
| Domestic currency borrowings                   | 145              | -                | -                | -                | 77               | 2,667            |
| Foreign currency borrowings                    | 295              | 997              | 2,824            | 5,368            | 8,908            | 13,556           |
| Other current liabilities                      | 134,674          | 175,000          | 228,000          | 296,000          | 385,000          | 500,000          |
| Total Current Liabilities                      | <u>1,517,933</u> | <u>1,986,697</u> | <u>2,498,384</u> | <u>3,223,188</u> | <u>3,987,785</u> | <u>4,990,083</u> |
| <b>Medium-/Long-Term Liabilities</b>           |                  |                  |                  |                  |                  |                  |
| Mutual installment receipts                    | 199,924          | 263,800          | 330,400          | 419,800          | 516,100          | 645,800          |
| Time and savings deposits                      | 67,929           | 88,900           | 111,140          | 121,480          | 153,800          | 197,540          |
| Property formation savings deposits            | 127,228          | 138,100          | 173,100          | 199,900          | 240,300          | 313,300          |
| Subtotal                                       | <u>395,081</u>   | <u>490,800</u>   | <u>614,640</u>   | <u>741,180</u>   | <u>910,200</u>   | <u>1,161,640</u> |
| <b>Borrowings from:</b>                        |                  |                  |                  |                  |                  |                  |
| BOK  | 5,537            | 13,000           | 23,000           | 35,000           | 48,923           | 60,333           |
| SMIPC  | -                | 100              | 300              | 600              | 1,000            | 1,500            |
| ADB  | 5,152            | 12,375           | 26,331           | 47,190           | 54,559           | 77,986           |
| IBRD   | 5,948            | 20,662           | 35,477           | 45,815           | 73,558           | 88,405           |
| Total Medium-/Long-Term Liabilities            | <u>411,718</u>   | <u>536,937</u>   | <u>699,748</u>   | <u>869,785</u>   | <u>1,088,240</u> | <u>1,389,864</u> |
| Provisions for retirement grants               | 36,364           | 43,370           | 53,869           | 66,703           | 88,463           | 123,009          |
| <b>Equity</b>                                  |                  |                  |                  |                  |                  |                  |
| Paid-in capital                                | 30,000           | 40,000           | 50,000           | 60,000           | 70,000           | 80,000           |
| Capital surplus                                | 71               | 71               | 71               | 71               | 71               | 71               |
| Reserves and retained earnings                 | 23,698           | 23,761           | 29,468           | 36,937           | 45,231           | 53,905           |
| Total Equity                                   | <u>53,769</u>    | <u>63,832</u>    | <u>79,539</u>    | <u>97,008</u>    | <u>115,302</u>   | <u>133,976</u>   |
| Total Liabilities and Equity                   | <u>2,019,784</u> | <u>2,630,836</u> | <u>3,331,540</u> | <u>4,256,684</u> | <u>5,279,790</u> | <u>6,636,932</u> |
| Current ratio /a (ADB definition)              | 1.11:1           | 1.11:1           | 1.11:1           | 1.10:1           | 1.09:1           | 1.09:1           |
| Long-term debt/equity /b (existing definition) | 4.7:1            | 5.4:1            | 6.0:1            | 6.2:1            | 6.6:1            | 6.9:1            |
| Long-term debt/equity /c (new IBRD definition) | 7.6:1            | 7.6:1            | 8.0:1            | 8.5:1            | 8.9:1            | 9.2:1            |

/a Current assets + current maturities of loans to current liabilities + current maturities of debts.

/b Long-term debt + long-term guarantees - current maturities - reserve requirements by BOK - remunerated mutual installment savings to total equity.

/c Long-term debt (excluding provisions for retirement grants) + long-term guarantees - remunerated mutual installment savings to total equity.

KOREA

THE CITIZENS NATIONAL BANK

Projected Income Statements, 1982-86  
(In Won million)

| Years ending December 31,                   | 1981 /a<br>(Actual) | 1982           | 1983           | 1984           | 1985           | 1986           |
|---|---------------------|----------------|----------------|----------------|----------------|----------------|
| <u>Income</u>                               |                     |                |                |                |                |                |
| Interest on business loans                  | 94,731              | 108,750        | 137,128        | 175,725        | 227,073        | 294,722        |
| Interest on general populace loans          | 94,068              | 147,037        | 193,582        | 226,910        | 284,778        | 365,468        |
| Interest on foreign currency loans          | 612                 | 2,097          | 5,232          | 9,697          | 14,203         | 19,558         |
| Interest on deposits with domestic banks    | 32,082              | 25,154         | 25,200         | 34,725         | 41,475         | 45,825         |
| Interest on securities                      | 66,703              | 58,607         | 60,638         | 81,000         | 96,900         | 107,025        |
| Interest on call loans                      | 2,708               | 10,080         | 7,600          | 9,120          | 10,880         | 13,040         |
| <u>Total Interest Income</u>                | <u>290,904</u>      | <u>351,725</u> | <u>429,380</u> | <u>537,177</u> | <u>675,309</u> | <u>845,638</u> |
| Dividends on investments                    | 43                  | 50             | 50             | 50             | 50             | 50             |
| Fees and commissions                        | 2,335               | 3,036          | 3,946          | 5,130          | 6,669          | 8,670          |
| Other income                                | 12,719              | 13,031         | 13,945         | 15,026         | 16,596         | 18,598         |
| <u>Gross Income</u>                         | <u>306,001</u>      | <u>367,842</u> | <u>447,321</u> | <u>557,383</u> | <u>698,624</u> | <u>872,956</u> |
| <u>Expenses</u>                             |                     |                |                |                |                |                |
| Interest on mutual installment receipts     | 39,125              | 49,534         | 55,155         | 67,416         | 83,194         | 103,279        |
| Interest on deposits                        | 177,082             | 204,309        | 253,069        | 317,687        | 396,380        | 492,074        |
| Interest on borrowings from BOK/Gov't/SMIPC | 194                 | 1,020          | 2,013          | 3,223          | 4,645          | 6,241          |
| Interest on foreign borrowings              | 566                 | 1,680          | 4,285          | 8,073          | 11,887         | 16,407         |
| <u>Total Interest Expenses</u>              | <u>216,967</u>      | <u>256,543</u> | <u>314,522</u> | <u>396,399</u> | <u>496,106</u> | <u>618,001</u> |
| Contribution to Credit Guarantee Fund       | 1,473               | 1,948          | 2,524          | 3,234          | 4,179          | 5,424          |
| General administrative expenses             | 70,891              | 90,927         | 109,312        | 130,575        | 160,490        | 198,988        |
| Other expenses                              | 2,406               | 2,900          | 3,486          | 4,183          | 5,020          | 6,024          |
| <u>Total Expenses</u>                       | <u>291,737</u>      | <u>352,318</u> | <u>429,844</u> | <u>534,391</u> | <u>665,000</u> | <u>828,437</u> |
| <u>Income Before Provisions and Tax</u>     | <u>14,264</u>       | <u>15,524</u>  | <u>17,477</u>  | <u>22,992</u>  | <u>32,829</u>  | <u>44,519</u>  |
| Provisions for doubtful loans               | 5,901               | 5,816          | 5,335          | 7,102          | 9,332          | 12,234         |
| <u>Income Before Tax</u>                    | <u>8,363</u>        | <u>9,708</u>   | <u>12,142</u>  | <u>15,890</u>  | <u>23,497</u>  | <u>32,285</u>  |
| Tax   | 1,264               | 5,145          | 6,435          | 8,421          | 12,453         | 17,111         |
| <u>Net Income</u>                           | <u>7,099</u>        | <u>4,563</u>   | <u>5,707</u>   | <u>7,469</u>   | <u>11,044</u>  | <u>15,174</u>  |

| Years ending December 31,                 | 1981 /a<br>(Actual) | 1982   | 1983   | 1984   | 1985   | 1986   |
|---|---------------------|--------|--------|--------|--------|--------|
| <u>Ratios</u>                             |                     |        |        |        |        |        |
| <u>Percentage of Average Total Assets</u> |                     |        |        |        |        |        |
| 1. Gross income                           | 17.4                | 15.8   | 15.0   | 14.7   | 14.7   | 14.7   |
| 2. Financial expenses                     | 12.3                | 11.0   | 10.5   | 10.4   | 10.4   | 10.4   |
| 3. Gross spread (1 - 2)                   | 5.1                 | 4.8    | 4.5    | 4.3    | 4.3    | 4.3    |
| 4. Administrative expenses                | 4.0                 | 3.9    | 3.7    | 3.4    | 3.4    | 3.3    |
| 5. Income before tax and provisions       | 0.8                 | 0.9    | 0.9    | 0.9    | 0.9    | 1.0    |
| 6. Net income                             | 0.4                 | 0.2    | 0.2    | 0.2    | 0.2    | 0.3    |
| <u>Net Profit as % of</u>                 |                     |        |        |        |        |        |
| Average equity                            | 14.8                | 7.8    | 8.0    | 8.5    | 10.4   | 12.2   |
| Share capital                             | 23.7                | 11.4   | 11.4   | 12.4   | 15.8   | 19.0   |
| (Average share capital)                   | (23.7)              | (13.0) | (12.7) | (13.6) | (17.0) | (20.2) |
| <u>Other Ratios</u>                       |                     |        |        |        |        |        |
| Return on total assets /b                 | 13.1                | 11.4   | 11.0   | 10.9   | 10.9   | 10.9   |
| Book value as % of par                    | 179                 | 160    | 159    | 162    | 165    | 167    |
| Interest cover ratio /c                   | 1.12                | 1.11   | 1.11   | 1.11   | 1.12   | 1.12   |

/a Unaudited, provisional and preliminary figures.

/b Income before tax plus interest expenses to total assets.

/c Income before tax plus noncash expenses and interest to interest charges.

AEP Projects Department  
February 9, 1982

**KOREA**  
**THE CITIZENS NATIONAL BANK**

**Projected Cash Flow Statements, 1982-86**  
(In won million)

| Year ending December 31,                   | 1981<br>(Actual) | 1982              | 1983             | 1984              | 1985              | 1986              |
|--|------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| <b>Sources</b>                             |                  |                   |                  |                   |                   |                   |
| Operations:                                |                  |                   |                  |                   |                   |                   |
| Net income                                 | 7,099            | 4,563             | 5,707            | 7,469             | 11,044            | 15,174            |
| Noncash charges                            | 16,648           | 18,981            | 23,347           | 29,550            | 36,943            | 45,927            |
| Subtotal                                   | <u>23,747</u>    | <u>23,544</u>     | <u>29,054</u>    | <u>37,019</u>     | <u>47,987</u>     | <u>61,101</u>     |
| Increase in deposits:                      |                  |                   |                  |                   |                   |                   |
| Mutual installment receipts                | 84,798           | 103,042           | 107,300          | 144,300           | 155,400           | 209,050           |
| Demand deposits                            | 31,023           | 44,377            | 75,400           | 101,400           | 109,200           | 146,900           |
| Savings deposits                           | 276,140          | 309,907           | 123,640          | 435,240           | 468,720           | 630,540           |
| Property formation savings deposits        | 57,325           | 65,431            | 73,660           | 99,060            | 106,680           | 143,510           |
| Subtotal                                   | <u>449,286</u>   | <u>522,957</u>    | <u>580,000</u>   | <u>780,000</u>    | <u>840,000</u>    | <u>1,130,000</u>  |
| Borrowings:                                |                  |                   |                  |                   |                   |                   |
| BOK  | 17,980           | 23,154            | 30,200           | 37,800            | 48,000            | 58,500            |
| SMIDC                                      | -                | 100               | 200              | 300               | 400               | 500               |
| ADB  | 3,726            | 7,510             | 14,910           | 23,430            | 11,360            | 29,110            |
| IBRD                                       | 6,086            | 15,104            | 12,425           | 8,875             | 28,400            | 18,815            |
| IBRD (Machinery Industry Project)          | -                | -                 | 4,260            | 4,260             | 4,260             | 3,905             |
| Others                                     | 116,300          | -                 | -                | -                 | -                 | -                 |
| Subtotal                                   | <u>364,092</u>   | <u>45,868</u>     | <u>61,995</u>    | <u>74,665</u>     | <u>92,420</u>     | <u>110,830</u>    |
| Loan collections:                          |                  |                   |                  |                   |                   |                   |
| Domestic currency business loans           | 256,190          | 260,000           | 406,449          | 520,000           | 670,000           | 870,000           |
| General populace loans                     | 245,296          | 290,000           | 621,093          | 680,000           | 840,000           | 1,070,000         |
| Call loans                                 | 2,788,400        | 6,300,000         | 4,750,000        | 5,700,000         | 6,800,000         | 8,150,000         |
| ADB subloans                               | 424              | 157               | 486              | 954               | 2,571             | 3,991             |
| IBRD subloans                              | 121              | 138               | 511              | 1,870             | 2,797             | 4,917             |
| Subtotal                                   | <u>3,310,431</u> | <u>6,850,295</u>  | <u>5,778,539</u> | <u>6,902,824</u>  | <u>8,315,368</u>  | <u>10,098,908</u> |
| Increase in other liabilities              | 1,822,415        | 2,347,632         | 3,053,199        | 3,968,634         | 5,162,040         | 6,723,746         |
| Increase in paid-in capital                | -                | 10,000            | 10,000           | 10,000            | 10,000            | 10,000            |
| Sale of securities                         | 200,571          | 407,000           | 116,000          | 382,000           | 560,000           | 503,000           |
| Sale of fixed assets                       | 2,213            | 1,000             | 1,400            | 1,900             | 2,400             | 2,900             |
| Decrease in other assets                   | 138,758          | 167,000           | 200,000          | 240,000           | 288,000           | 345,000           |
| Total Sources                              | <u>6,311,513</u> | <u>10,375,296</u> | <u>9,830,187</u> | <u>12,397,042</u> | <u>15,322,135</u> | <u>18,985,385</u> |
| <b>Uses</b>                                |                  |                   |                  |                   |                   |                   |
| Disbursement of loans:                     |                  |                   |                  |                   |                   |                   |
| Domestic currency business loans           | 363,866          | 440,000           | 610,000          | 790,000           | 1,030,000         | 1,340,000         |
| General populace loans                     | 508,026          | 790,000           | 740,000          | 970,000           | 1,260,000         | 1,640,000         |
| ADB subloans                               | 3,726            | 7,709             | 14,910           | 23,430            | 11,360            | 29,110            |
| IBRD subloans                              | 6,086            | 15,225            | 12,425           | 8,875             | 28,400            | 18,815            |
| IBRD subloans (Machinery Industry Project) | -                | -                 | 4,260            | 4,260             | 4,260             | 3,905             |
| Call loans                                 | 2,841,400        | 6,260,000         | 4,759,000        | 5,710,000         | 6,812,000         | 8,165,000         |
| Subtotal                                   | <u>3,723,104</u> | <u>7,512,934</u>  | <u>6,140,595</u> | <u>7,506,565</u>  | <u>9,146,020</u>  | <u>11,196,830</u> |
| Repayment of borrowings:                   |                  |                   |                  |                   |                   |                   |
| BOK/KDB                                    | 11,902           | 15,000            | 19,500           | 25,000            | 33,000            | 43,000            |
| Government                                 | 98               | 145               | -                | -                 | -                 | -                 |
| ADB  | 225              | 157               | 486              | 954               | 2,571             | 3,991             |
| IBRD                                       | -                | 138               | 511              | 1,870             | 2,797             | 4,917             |
| Others                                     | 337,373          | 48                | -                | -                 | -                 | -                 |
| Subtotal                                   | <u>349,598</u>   | <u>15,488</u>     | <u>20,497</u>    | <u>27,824</u>     | <u>38,368</u>     | <u>51,908</u>     |
| Increase in deposits with domestic banks   | (68,186)         | 8,501             | 96,819           | 88,364            | 46,361            | 66,591            |
| Investment in securities                   | 328,891          | 101,474           | 305,000          | 538,000           | 616,000           | 582,000           |
| New premises and equipment                 | 16,176           | 23,292            | 25,000           | 25,000            | 25,000            | 25,000            |
| Increase in other assets                   | 162,761          | 177,209           | 215,056          | 278,089           | 337,236           | 415,366           |
| Payment of dividends                       | 5,400            | 4,500             | -                | -                 | 2,750             | 6,500             |
| Payment of retirement grants               | 1,170            | 1,500             | 2,000            | 2,700             | 3,500             | 5,000             |
| Decrease in other liabilities              | 1,776,997        | 2,310,000         | 3,003,000        | 3,904,000         | 5,075,000         | 6,598,000         |
| Total Uses                                 | <u>6,295,913</u> | <u>10,356,898</u> | <u>9,807,987</u> | <u>12,370,542</u> | <u>15,290,235</u> | <u>18,947,185</u> |
| Cash balance - beginning                   | 76,602           | 92,202            | 110,600          | 132,800           | 159,300           | 191,200           |
| Increase (or decrease)                     | 15,600           | 18,398            | 22,200           | 26,500            | 31,900            | 38,200            |
| Cash Balance - End                         | <u>92,202</u>    | <u>110,600</u>    | <u>132,800</u>   | <u>159,300</u>    | <u>191,200</u>    | <u>229,400</u>    |

KOREA

THE CITIZENS NATIONAL BANK

Estimated Commitments and Disbursements of Proposed Bank Loan /a

|                       | <u>Commitments</u> |              | <u>Disbursements</u> |              |
|-----------------------|--------------------|--------------|----------------------|--------------|
|                       | <u>Amount</u>      | <u>% /b</u>  | <u>Amount</u>        | <u>% /b</u>  |
| <u>FY83</u>           |                    |              |                      |              |
| July-September 1982   | -                  | -            | -                    | -            |
| October-December 1982 | 0.2                | 0.7          | -                    | -            |
| January-March 1983    | 1.0                | 4.0          | 0.1                  | 0.3          |
| April-June 1983       | 2.0                | 10.7         | 0.5                  | 2.0          |
| Subtotal              | <u>3.2</u>         | <u>10.7</u>  | <u>0.6</u>           | <u>2.0</u>   |
| <u>FY84</u>           |                    |              |                      |              |
| July-September 1983   | 4.0                | 24.0         | 1.0                  | 5.3          |
| October-December 1983 | 5.0                | 40.7         | 3.4                  | 16.7         |
| January-March 1984    | 5.0                | 57.3         | 4.5                  | 31.7         |
| April-June 1984       | 4.8                | 73.3         | 4.5                  | 46.7         |
| Subtotal              | <u>18.8</u>        | <u>73.3</u>  | <u>13.4</u>          | <u>46.7</u>  |
| <u>FY85</u>           |                    |              |                      |              |
| July-September 1984   | 3.0                | 83.3         | 4.0                  | 60.0         |
| October-December 1984 | 3.0                | 93.3         | 3.5                  | 71.7         |
| January-March 1985    | 2.0                | 100.0        | 2.5                  | 80.0         |
| April-June 1985       |                    |              | 2.0                  | 86.7         |
| Subtotal              | <u>8.0</u>         | <u>100.0</u> | <u>12.0</u>          | <u>86.7</u>  |
| <u>FY86</u>           |                    |              |                      |              |
| July-September 1985   |                    |              | 1.5                  | 91.7         |
| October-December 1985 |                    |              | 1.0                  | 95.0         |
| January-March 1986    |                    |              | 0.5                  | 96.7         |
| April-June 1986       |                    |              | 0.5                  | 98.3         |
| Subtotal              |                    |              | <u>3.5</u>           | <u>98.3</u>  |
| <u>FY87</u>           |                    |              |                      |              |
| July-September 1986   |                    |              | 0.5                  | 100.0        |
| <u>Total</u>          | <u>30.0</u>        | <u>100.0</u> | <u>30.0</u>          | <u>100.0</u> |

/a Assuming that the proposed loan would become effective during the second quarter of FY83.

/b Percentages are cumulative.

AEP Projects Department  
February 9, 1982

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Selected Documents and Data Available in the Project File

A. Selected Reports and Studies on the SMI Sector

- A-1 Study on Long-Term Development Plan and Promotion Policy for Small and Medium Industry in Korea (1982-1991), SMIPC and Korea Industrial Development Institute (KID)
- A-2 Study on National Extension Services for SMIs, MCI
- A-3 MCI Announcement No. 82-1 dated January 21, 1982 on Extension Services

B. Selected Documents Relating to the Project

- B-1 CNB's Plan for Extension Services to SSIs in 1982
- B-2 CNB's Staff Training Program
- B-3 CNB's Plan for Strengthening of Research Activities (especially subsector studies)
- B-4 CNB's Plan for Strengthening of Subproject Supervision Activities
- B-5 Summary of Technical Discussions on items B-1, B-2, B-3 and B-4

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**ORGANIZATION CHART**  
(As of January 1, 1982)





